

**Announcement to ASX**

**23 October 2017**

**Dispatch of 2017 Annual Report and Notice of AGM**

Shark Mitigation Systems Limited (ASX: SM8) is pleased to attach a copy of the 2017 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form which have been dispatched to shareholders.

A copy of the Annual Report and Notice of Annual General Meeting will also be available on our website [www.sharkmitigation.com](http://www.sharkmitigation.com)

**On behalf of the Board**

David McArthur  
Director

Shark Mitigation Systems Limited ASX:SM8  
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**SHARK MITIGATION SYSTEMS LIMITED**  
**ABN 77 149 970 445**

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**NOTICE OF ANNUAL GENERAL MEETING**  
**PROXY FORM**  
**AND**  
**EXPLANATORY MEMORANDUM**

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*Date of Meeting*

**23 November 2017**

*Time of Meeting*

**10:00 am (WST)**

*Place of Meeting*

**Level 1, 31 Cliff Street  
Fremantle, Western Australia**

# SHARK MITIGATION SYSTEMS LIMITED

ABN 77 149 970 445

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of Shark Mitigation Systems Limited ("**Company**") will be held at 10:00 am (WST) on 23 November 2017, at Level 1, 31 Cliff Street, Fremantle, Western Australia.

In order to determine voting entitlements, the register of Shareholders will be closed at 5:00pm (EST) on 22 November 2017.

An Explanatory Statement containing information in relation to each of the Resolutions to be put to the meeting accompanies this Notice.

### AGENDA

To consider and, if thought fit, to pass the following Resolutions.

### ORDINARY BUSINESS

#### Financial Statements and Reports

To receive and consider the annual financial report for the Company for the financial year ended 30 June 2017 together with the declaration of the directors, the director's report, the Remuneration Report and the auditor's report.

#### Resolution 1: Adoption of the Remuneration Report

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

*"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report contained within the Company's annual financial for the financial year ended 30 June 2017."*

**Note 1:** The vote on this resolution is advisory only and does not bind the Directors of the Company.

**Note 2:** If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director and CEO) must stand for re-election. Less than 25% of shareholder voted against the remuneration report at the 2016 Annual General Meeting.

#### **Voting Prohibition Statement:**

A vote on this Resolution 1 must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
  - (b) a Closely Related Party of such a member,
- (collectively, a "**Prohibited Voter**").

However, a Prohibited Voter may cast a vote on this Resolution 1 as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the Prohibited Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (d) the Prohibited Voter is the Chair and the appointment of the Chair as proxy:
  - (i) does not specify the way the proxy is to vote on this Resolution; and
  - (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

#### **Ordinary Resolution 2: Re-election of Director - David McArthur**

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That Mr David McArthur, a Director, retires by rotation in accordance with clause 14.2 of the Company’s constitution, ASX Listing Rule 14.4 and for all other purposes, and being eligible is re-elected as a Director.”*

#### **Ordinary Resolution 3: Ratification of Issue of Shares and Options - Placement**

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an ordinary resolution:

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Company ratifies the allotment and issue of 250,000 fully paid ordinary shares and 400,000 June 1, 2020 options on the terms set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 3 by any persons who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the proxy form or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### **Special Resolution 4: Approval of 10% Placement Capacity**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

*“That, for the purpose of Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totalling up to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the issue of Equity Securities under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company will not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Important note:** The proposed recipients of any Equity Securities under the 10% Placement Capacity are not as yet known or identified. In these circumstances (and in accordance with the note set out in ASX Listing Rule 14.11.1 relating to ASX Listing Rules 7.1 and 7.1A), for a person's vote to be excluded, it must be known that that person will participate in the proposed issue. Where it is not known who will participate in the proposed issue (as is the case in respect of any Equity Securities issued under the 10% Placement Capacity), Shareholders must consider the proposal on the basis that they may or may not get a benefit and that it is possible that their holding will be diluted, and there is no reason to exclude their votes.

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution by any persons who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the proxy form or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### **Special Resolution 5: Change of Name**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

*"That, for the purposes of Section 157(1) of the Corporations Act and for all other purposes, the name of the Company be changed to Smart Marine Systems Limited".*

#### **Ordinary Resolution 6: Issue of Options to Related Party - Craig Anderson**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purpose of ASX Listing Rule 10.11, sections 195(4) and 208 of the Corporations Act and for all other purposes, approval is given for the Directors to allot and issue 4,000,000 Director Options to Craig Anderson (or his nominee) on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution by Craig Anderson, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

#### **Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

### **Ordinary Resolution 7: Issue of Options to Related Party - Hamish Jolly**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 10.11, sections 195(4) and 208 of the Corporations Act and for all other purposes, approval is given for the Directors to allot and issue 2,000,000 Director Options to Hamish Jolly (or his nominee) on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution by Hamish Jolly, his nominee or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

**By Order of the Board**



D M McARTHUR  
**Company Secretary**

Dated: 13 October 2017

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## ENTITLEMENT TO ATTEND AND VOTE

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The Company may specify a time, not more than 48 hours before the Meeting, at which a “snap-shot” of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the Annual General Meeting.

The Company’s Directors have determined that all Shares of the Company that are quoted on ASX at 5:00pm (EST) on 22 November 2017 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

### VOTING IN PERSON

To vote in person, attend the Meeting at the time, date and place set out above.

### VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- (a) each Shareholder has a right to appoint a proxy;
- (b) the proxy need not be a member of the Company; and
- (c) a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints two proxies and the appointment does not specify the proportion or number of the member’s votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one- half of the votes.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

### CORPORATE REPRESENTATIVE

A Shareholder that is a corporation may appoint an individual to act as its corporate representative to vote at the Meeting in accordance with section 250D of the Corporations Act. Any corporation wishing to appoint an individual to act as its representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company’s representative. The authority may be sent to the Company and/or Share Registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative. A ‘Certificate of Appointment of Corporate Representative’ is enclosed if required.

### ENQUIRIES

Shareholders are invited to contact the Company Secretary, Mr David McArthur on +61 8 9435 3200 if they have any queries in respect of the matters set out in this document.

# SHARK MITIGATION SYSTEMS LIMITED

ABN 77 149 970 445

## EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting ("**Notice**") of the Company.

The Directors of the Company ("**Directors**") recommend Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

The following information should be noted in respect of the various matters contained in the accompanying Notice.

### FINANCIAL STATEMENTS AND REPORTS

The business of the Annual General Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2017, together with the declaration of the Directors, the Directors' report, the Remuneration Report and the auditor's report.

A copy of the Company's 2017 Annual Report is available on the Company's ASX platform (ASX: SM8) and on the website [www.sharkmitigation.com](http://www.sharkmitigation.com). Alternatively, a hard copy will be made available upon request.

The Company's auditor, HLB Mann Judd, will be present at the Annual General Meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the auditor's report, the Company's accounting policies, and the independence of the auditor.

In addition to taking questions at the Meeting, written questions to the Chair about the management of the Company, or to the Company's auditor about:

- (a) the preparation and content of the auditor's report;
- (b) the conduct of the audit;
- (c) accounting policies adopted by the Company in relation to the preparation of the Annual Financial Statements; and
- (d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 5 business days before the meeting date to the Company Secretary.

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### ORDINARY RESOLUTION 1: Adoption of Remuneration Report

#### General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the Remuneration Report be adopted must be put to the Shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' report contained in the annual financial report of the Company for a financial year.



The chair of the meeting must allow a reasonable opportunity for its shareholders to ask questions about or make comments on the Remuneration Report at the Annual General Meeting.

### **Voting consequences**

Pursuant to the Corporations Act, a company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (Spill Resolution) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.

If more than 50% of votes cast are in favour of the Spill Resolution, the company must convene a shareholder meeting (Spill Meeting) within 90 days of the second annual general meeting.

At the Company's previous annual general meeting, the votes cast against the remuneration report considered at that annual general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this Annual General Meeting.

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### **ORDINARY RESOLUTION 2: Re-election of Director - Mr David McArthur**

ASX Listing Rule 14.4 provides that a director of an entity must not hold office (without re-election) past the third annual general meeting following the director's appointment or 3 years, whichever is longer.

Clause 14.2 of the Company's Constitution requires that at every Annual General Meeting of the Company one-third of the Directors (rounded up to the nearest whole number) shall retire from office. The Directors to retire are those who have been longest in office since their last election. A Director who retires by rotation under clause 14.2 is eligible for re-election.

The Company currently has 3 Directors and accordingly 1 must retire.

Mr David McArthur, the Director longest in office since his last election, retires by rotation and seeks re-election as a Director.

Information about Mr McArthur is set out in the Company's 2017 Annual Report.

The Board (other than Mr McArthur) unanimously supports the re-election of Mr McArthur.

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### **ORDINARY RESOLUTION 3: Ratification of Prior Issue of Shares**

On 7 June 2017, the Company issued 250,000 Shares at a deemed issue price of \$0.10 per Share pursuant to an ambassador agreement with Bruce Hopkins. 400,000 unlisted options exercisable at 5 cents each on or before 1 June 2020 were also issued.

ASX Listing Rule 7.1 provides that the Company must not issue or agree to issue, subject to specified exceptions, during any 12-month period any equity securities which, when aggregated with the number of other securities issued within that 12-month period exceeds 15% of the number of ordinary shares on issue at the beginning of that 12-month period, unless the issue falls within one of the nominated exceptions, or the prior approval of members of the Company at a general meeting is obtained.

Listing Rule 7.4 provides an issue made within the 15% limit will be treated as having been made with the approval of shareholders under Listing Rule 7.1 if subsequently approved by shareholders, thereby 'refreshing' the company's ability to issue shares within the 15% limit, and restoring the company's ability to make placements within that limit (if that is thought desirable) without the need for shareholder approval.

While the Shares and options described in this Resolution 3 have been issued within the 15% limit, the Company seeks Shareholder ratification of the issue of those Shares for the purpose of Listing Rule 7.4 so that the Company's ability to issue securities will be refreshed and it will have the flexibility to issue further securities should the need or opportunity arise.

#### **Technical information required by ASX Listing Rule 7.4**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) 250,000 Shares were issued;
- (b) the deemed issue price was \$0.10 per Share;
- (c) 400,000 options exercisable at 5 cents by 1 June 2020 were issued for no consideration. The full terms of the options are set out at appendix 2.
- (d) the Shares were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (e) the Shares and options were issued to Bruce Hopkins pursuant to an ambassador agreement with the Company.

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#### **SPECIAL RESOLUTION 4: Approval of 10% Placement Capacity – Shares**

##### **General**

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval at its annual general meeting to allow it to issue Equity Securities up to 10% of its issued capital over a period up to 12 months after the annual general meeting (**10% Placement Capacity**).

The Company is an Eligible Entity.

If Shareholders approve Resolution 4, the number of Equity Securities the Eligible Entity may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out below).

The effect of Resolution 4 will be to allow the Directors to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the Meeting, without subsequent Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 4 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 4 for it to be passed.

##### **ASX Listing Rule 7.1A**

ASX Listing Rule 7.1A came into effect on 1 August 2012 and enables an Eligible Entity to seek shareholder approval at its annual general meeting to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

- (a) is not included in the S&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

The Company is an Eligible Entity as it is not included in the S&P/ASX 300 Index and has a current market capitalisation of approximately \$6.2 million.

Any Equity Securities issued must be in the same class as an existing class of quoted Equity Securities. The Company currently has one class of quoted Equity Securities on issue, being fully paid ordinary Shares (ASX Code SM8).

The exact number of Equity Securities that the Company may issue under an approval under Listing Rule 7.1A will be calculated according to the following formula:

$$(A \times B) - C$$

Where:

- A is the number of Shares on issue 12 months before the date of issue or agreement:
  - (i) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;
  - (ii) plus the number of partly paid shares that became fully paid in the previous 12 months;
  - (iii) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under Listing Rules 7.1 and 7.4.; and
  - (iv) less the number of Shares cancelled in the previous 12 months.
- B is 10%.
- C is the number of Equity Securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Ordinary Securities under ASX Listing Rule 7.1 or 7.4.

#### Technical information required by ASX Listing Rule 7.1A

Pursuant to and in accordance with ASX Listing Rule 7.3A, the information below is provided in relation to this Resolution 3:

(a) **Minimum Price**

The minimum price at which the Equity Securities may be issued is 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 ASX trading days of the date above, the date on which the Equity Securities are issued.

(b) **Date of Issue**

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

- (i) 12 months after the date of this Meeting; and
- (ii) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking).

(c) **Risk of voting dilution**

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 4 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated on the basis of the current market price of Shares and the current number of Equity Securities on issue as at the date of this Notice.

The table also shows the voting dilution impact where the number of Shares on issue (variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

Variable "A"		<b><u>DILUTION</u></b>		
		<b>\$0.031 50% decrease in Issue Price</b>	<b>\$0.062 Issue price</b>	<b>\$0.124 100% Increase in Issue Price</b>
<b>Current Variable A</b>	<b>10% Voting Dilution</b>			
<b>66,889,153 Shares</b>		6,688,915 Shares	6,688,915 Shares	6,688,915 Shares
	<b>Funds Raised</b>	\$ 207,356	\$ 414,712	\$ 829,424
<b>50% Increase In Current Variable A</b>	<b>10% Voting Dilution</b>			
<b>100,333,730 Shares</b>		10,033,373 Shares	10,033,373 Shares	10,033,373 Shares
	<b>Funds Raised</b>	\$ 311,034	\$ 622,069	\$ 1,244,138
<b>100% Increase In Current Variable A</b>	<b>10% Voting Dilution</b>			
<b>133,778,306 Shares</b>		13,377,830 Shares	13,377,830 Shares	13,377,830 Shares
	<b>Funds Raised</b>	\$ 414,712	\$ 829,424	\$ 1,658,850

\* The number of Shares on issue (variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

- (a) The current shares on issue are the Shares on issue as at 13 October 2017.
- (b) No options are exercised into Shares before the date of issue of the Equity Securities.
- (c) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. That is why the voting dilution is shown in each example as 10%.
- (d) The issue price set out above is the closing price of the Shares on the ASX on 13 October 2017.
- (e) The Company issues the maximum possible number of Equity Securities under the 10% Placement Capacity.
- (f) The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.
- (g) The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
- (h) This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.

Shareholders should note that there is a risk that:

- (i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and
- (ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

(d) **Purpose of Issue under 10% Placement Capacity**

The Company may issue Equity Securities under the 10% Placement Capacity for the following purposes:

- (i) as cash consideration in which case the Company may use funds raised for the acquisition of new resources, assets and investments (including expenses associated with such an acquisition), continued exploration expenditure on the Company's current assets and general working capital; or
- (ii) as non-cash consideration for the acquisition of new resources, assets and investments in which circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

(e) **Allocation under the 10% Placement Capacity**

The Company's allocation policy for the issue of Equity Securities under the 10% Placement Capacity will be dependent on the prevailing market conditions at the time of the proposed placement(s).

The recipients of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the recipients of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the recipients at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

- (i) the purpose of the issue;
- (ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;
- (iii) the effect of the issue of the Equity Securities on the control of the Company;
- (iv) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
- (v) prevailing market conditions; and
- (vi) advice from corporate, financial and broking advisers (if applicable).

Further, if the Company is successful in acquiring new resources, assets or investments, it is likely that the recipients under the 10% Placement Capacity will be vendors of the new resources, assets or investments.

(f) **Previous Approval under ASX Listing Rule 7.1A**

The Company obtained approval under Listing Rule 7.1A on 16 November 2016. The Company has not issued any Equity Securities pursuant to Listing Rule 7.1A in the 12 months preceding the date of the Annual General Meeting.

As the Company has previously sought shareholder approval for the additional placement capacity under Listing Rule 7.1A, the following information is provided in relation to all issues of equity securities in the 12 months prior to the date of the Annual General Meeting, pursuant to the requirements of Listing Rule 7.3A6(a) and 7.3A6(b):

A total of 11,849,140 ordinary shares have been issued representing 21.78% of the shares on issue at the commencement of the 12-month period preceding the date of the Annual General Meeting.

<b>Date of Issue:</b>	<b>28/10/16</b>
Number issued:	250,000 / 400,000
Class:	Fully paid ordinary shares/ 1 June 2020 options exercisable at 5 cents
Name of applicants:	Bruce Hopkins
Price:	10 cents per share. Free options.
Discount to market:	N/A
Total cash received:	N/A
Basis of issue	Endorsement fees
Option value at date of notice	\$17,440 (refer appendix 1)

<b>Date of Issue:</b>	<b>20/1/17</b>
Number issued:	11,599,140
Class:	Fully paid ordinary
Terms:	Vesting of performance shares
Name of applicants:	Craig Anderson and Hamish Jolly
Price:	Deemed price 10 cents per share
Discount to market:	No discount to market
Total cash received:	\$Nil.

## Voting Exclusion

A voting exclusion statement is included in this Notice. As at the date of this Notice, the Company has not invited any existing Shareholder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. Therefore, no existing Shareholders will be excluded from voting on Resolution 4.

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## SPECIAL RESOLUTION 5: Change of name

As the Company expands its activities to include other technologies and investment opportunities not directly related with Shark Mitigation technology, it is felt that a change of name to Smart Marine Systems Limited will more accurately reflect the future business of the Company.

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## ORDINARY RESOLUTIONS 6 and 7: Issue of Options to Related Parties

The Company has agreed, subject to shareholder approval, to issue a total of 6,000,000 Options (**Director Options**) to its executive Directors as set out below.

- (a) Craig Anderson (Managing Director) - 4,000,000 Director Options;
  - (b) Hamish Jolly (Executive Director) - 2,000,000 Director Options.
- (together, the **Related Parties**) on the terms and conditions set out in Appendix 3.

For a public company to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Section 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

The grant of the Director Options constitutes giving a financial benefit, and Messrs Anderson and Jolly are Related Parties of the Company by virtue of being Directors

In addition, Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party (or a person who has been a related party in the last 6 months), or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in Listing Rule 10.12 applies. It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act and Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the grant of Director Options to the Related Parties.

## Section 195 of the Corporations Act

Section 195(1) of the Corporations Act provides that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

If there is not a quorum of directors who are eligible to vote on a matter because of the operation of Section 195(1) of the Corporations Act, one or more directors may call a general meeting and the general meeting may deal with the matter.

The voting prohibition in section 195(1) of the Corporations Act does not apply to a proposal to call a general meeting to consider a matter in which one or more directors have a material personal interest—that is, a director with a material personal interest may consider and vote on such a proposal.

Craig Anderson and Hamish Jolly have a material personal interest in the outcome of Resolutions 6 and 7 because they will be receiving Director Options.

The Directors have exercised their right under section 195(4) of the Corporations Act to call the Meeting and put the matters the subject of Resolutions 6 and 7 to Shareholders.

#### **Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)**

Pursuant to, and in accordance with, the requirements of Sections 217 to 227 of the Corporations Act and Listing Rule 10.13, the following information is provided in relation to the proposed grant of Director Options:

- (a) the Related Parties are Craig Anderson and Hamish Jolly by virtue of being a Director.
- (b) the maximum number of Director Options (being the nature of the financial benefit being provided) to be granted to the Related Parties in the aggregate is 6,000,000 Director Options, being 4,000,000 to Craig Anderson and 2,000,000 to Hamish Jolly.
- (c) The Director options will be exercisable at \$0.10 per Option on or before 31 December 2020;
- (d) The director options will vest if the share price is at least 10 cents per share for 5 consecutive trading days.
- (e) the Director Options will be granted to the Related Parties no later than 1 month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Director Options will be issued on one date;
- (f) the Director Options will be granted for nil cash consideration, accordingly no funds will be raised;
- (g) the value of the Director Options is \$229,800 and the pricing methodology is set out in Appendix 1;
- (h) the relevant interest of the Related Parties in securities of the Company is set out below:

Craig Anderson - 17,230,259 shares  
- 7,788,446 performance shares

Hamish Jolly - 17,094,279 shares  
- 7,788,446 performance shares

the Related Parties receive the following director remuneration for the current financial as follows:

- (i) Craig Anderson - \$ 291,058
- (ii) Hamish Jolly - \$ 60,000

In the previous financial year, the Related Parties received the following from the Company (paid and payable):

- (i) Craig Anderson - \$ 121,525
- (ii) Hamish Jolly - \$25,231



- (i) if the Director Options granted to the Related Parties are exercised, a total of 6,000,000 Shares would be issued. This will increase the number of Shares on issue from 66,889,253 to 72,889,253 (assuming that no performance share or options are exercised and no other Shares issued) with the effect that the shareholding of existing shareholders would be diluted by 8.23%.

The market price for Shares during the term of the Director Options would normally determine whether or not the Director Options are exercised. If, at any time, any of the Director Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the Director Options, there may be a perceived cost to the Company.

- (j) the trading history of the Shares on ASX in the 12 months before the date of this Notice of General Meeting set out below:

	PRICE	DATE
HIGHEST	19 CENTS	21 NOVEMBER 2016
LOWEST	2.7 CENTS	19 SEPTEMBER 2017
LATEST	6.2 CENTS	13 OCTOBER 2017

- (k) the primary purpose of the issue of the Director Options is to provide a market linked incentive to the Related Parties to motivate and reward their performance in their respective roles as Directors;
- (l) the Board acknowledges the grant of Related Party Options to Directors is contrary to Recommendation 8.3 of The Corporate Governance Principles and Recommendations, however the Board considers the grant of Related Party Options to the Directors reasonable in the circumstances for the reason set out in paragraph (m);
- (m) Craig Anderson declines to make a recommendation to Shareholders in relation to Resolution 6 due to his material personal interest in the outcome of the Resolution on the basis that he is to be granted Director Options in the Company should Resolution 6 be passed. However, in respect of Resolution 7, Mr Anderson recommends that Shareholders vote in favour of those Resolutions for the following reasons:
- (i) the grant of Director Options to the Related Parties will align the interests of the Related Parties with those of Shareholders;
  - (ii) the grant of the Director Options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the Related Parties; and
  - (iii) it is not considered that there are any significant opportunity costs to the Company or opportunities foregone by the Company in granting the Director Options upon the terms proposed;
- (n) Hamish Jolly declines to make a recommendation to Shareholders in relation to Resolution 7 due to his material personal interest in the outcome of the Resolution on the basis that he is to be granted Director Options in the Company should Resolution 7 be passed. However, in respect of Resolution 6 Mr Jolly recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (m);
- (o) David McArthur recommends that Shareholders vote in favour of Resolutions 6 and 7 for the reasons set out in paragraph (m);

- (p) in forming the recommendations, each Director considered the experience of each other Related Party, the current market price of Shares, the current market practices when determining the number of Director Options to be granted as well as the exercise prices and expiry dates of those Director Options; and
- (q) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolutions.

Approval pursuant to Listing Rule 7.1 is not required in order to issue the Director Options to the Related Parties as approval is being obtained under Listing Rule 10.11. Accordingly, the issue of Director Options to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to Listing Rule 7.1.

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## GLOSSARY

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**Annual General Meeting or Meeting** means the meeting convened by this Notice.

**ASX** means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

**ASX Listing Rules** means the Listing Rules of ASX.

**Closely Related Party** of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

**Company** means Shark Mitigation Systems Limited - ACN 149 970 445

**Directors** means the current directors of the Company.

**Eligible Entity** means an entity that, at the date of the relevant general meeting:

- (a) is not included in the S&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

**Equity Securities** includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**Key Management Personnel** has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

**Notice or Notice of Meeting or Notice of Annual General Meeting** means this notice of Annual General Meeting including the Explanatory Statement and the Proxy Form.

**Ordinary Securities** has the meaning set out in the ASX Listing Rules.

**Resolutions** means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

**Shareholder** means a holder of a Share.

**WST** means Australian Western Standard Time (Perth, Western Australia).

## Instructions for Completing 'Appointment of Proxy' Form

1. **(Changes to Proxy Voting):** Sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Section 250R(5) of the Corporations Act came into effect on 28 June 2012 and will affect the Chair's votes on undirected proxies. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes mean that:
  - (a) if proxy holders vote, they must cast all directed proxies as directed;
  - (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed; andFurther details on these changes are set out below.
2. **(Appointing a Proxy):** A member with two or more votes entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
3. **(Proxy vote if appointment specifies way to vote):** Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**
  - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);
  - (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;
  - (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
  - (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).
4. **(Transfer of non-chair proxy to chair in certain circumstances):** Section 250BC of the Corporations Act provides that, if:
  - (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
  - (b) the appointed proxy is not the chair of the meeting;
  - (c) at the meeting, a poll is duly demanded on the resolution; and
  - (d) either of the following applies:
    - (i) the proxy is not recorded as attending the meeting;
    - (ii) the proxy does not vote on the resolution,the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.
5. **(Signing Instructions):**
  - (a) **(Individual):** Where the holding is in one name, the member must sign.
  - (b) **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.

- (c) **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
  - (d) **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
6. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
7. **(Voting in person):**
- (a) A Shareholder that is an individual may attend and vote in person at the Meeting. If you wish to attend the Meeting, please bring the attached proxy form to the Meeting to assist in registering your attendance and number of votes. Please arrive 15 minutes prior to the start of the Meeting to facilitate this registration process.
  - (b) A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the Meeting in accordance with Section 250D of the Corporations Act. The appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the Certificate is enclosed with this Notice of Meeting
8. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return the Proxy Form (and any Power of Attorney under which it is signed):
- (a) In person to Level 1, 31 Cliff Street, Fremantle, Perth, WA;
  - (b) By mail to PO Box 584, Fremantle, WA, 6959.
  - (c) By Facsimile to +61 8 6444 7408;
  - (d) By scan and email to david.mcarthur@broadwaymgt.com.au
- so that it is received at least 48 hours prior to commencement of the Annual General Meeting. Proxy Forms received later than this time will be invalid.**

# SHARK MITIGATION SYSTEMS LIMITED

ABN 77 149 970 445

## **APPENDIX 1**

### **Valuation of 1 June 2020 options at date of notice of meeting**

The Company has valued the Options using the Black-Scholes option model and based on the assumptions as set out in the table below, with the Options ascribed a value as follows:

#### ***Assumptions:***

Value date: 13 October 2017

Share price: \$0.062

Exercise price: \$0.05

Term: 33 months

Volatility: 115%

Risk free interest rate: 1.66%

Indicative value per Option: \$0.0436

### **Valuation of 31 December 2020 Director Options at date of notice of meeting**

The Company has valued the Director Options using the Black-Scholes option model and based on the assumptions as set out in the table below, with the Options ascribed a value as follows:

#### ***Assumptions:***

Value date: 13 October 2017

Share price: \$0.062

Exercise price: \$0.10

Term: 37 months

Volatility: 115%

Risk free interest rate: 1.66%

Indicative value per Option: \$0.0383

# SHARK MITIGATION SYSTEMS LIMITED

ABN 77 149 970 445

## **APPENDIX 2**

### **1 JUNE 2020 OPTION TERMS**

- (a) The Options will be unlisted.
- (b) The Options are exercisable at 5 cents each at any time on or before 1 June 2020 ("Expiry Date").
- (c) Each Option exercised will entitle the holder to one Share in the capital of the Company.
- (d) The notice attached to the certificate has to be completed when exercising the Options ("Notice of Exercise").
- (e) Options may be exercised by the holder completing and forwarding to the Company a Notice of Exercise and payment of the exercise price for each Option being exercised prior to the Expiry Date.
- (f) All Shares issued upon exercise of the Options will rank pari passu in all respects with the Company's then existing Shares.
- (g) Shares allotted and issued pursuant to the exercise of Options will be allotted and issued not more than 15 business days after the receipt of a properly executed Notice of Exercise and payment for the Exercise Price of each Option being exercised. The Company will apply for official quotation on ASX of Shares issued pursuant to the exercise of Options.
- (h) The holder of Options cannot participate in new issues of securities to holders of Shares unless the Options have been exercised and the Shares have been allotted and registered in respect of the Options before the record date for determining entitlements to the issue. The Company must give notice to the holder of the Options of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules. Options can only be exercised in accordance with these terms and conditions.
- (i) If the Company makes a pro rata bonus issue of Shares to holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Shares have been allotted and registered in respect of the exercise of Options before the record date for determining entitlements to the bonus issue, then the number of Shares or other securities for which the holder of the Options is entitled to subscribe on exercise of the Options is increased by the number of Shares or other securities that the holder of the Options would have received if the Options had been exercised before the record date for the bonus issue. No change will be made to the Exercise Price.
- (j) If at any time the capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

# SHARK MITIGATION SYSTEMS LIMITED

ABN 77 149 970 445

## **APPENDIX 3**

### **DIRECTOR OPTION TERMS**

- (a) The Options will be unlisted.
- (b) The Options are exercisable at 10 cents each at any time on or before 31 December 2020 ("Expiry Date").
- (c) The options vest if the share price is at least 10 cents per share for 5 consecutive trading days.
- (d) Each Option exercised will entitle the holder to one Share in the capital of the Company.
- (e) The notice attached to the certificate has to be completed when exercising the Options ("Notice of Exercise").
- (f) Options may be exercised by the holder completing and forwarding to the Company a Notice of Exercise and payment of the exercise price for each Option being exercised prior to the Expiry Date.
- (g) All Shares issued upon exercise of the Options will rank pari passu in all respects with the Company's then existing Shares.
- (h) Shares allotted and issued pursuant to the exercise of Options will be allotted and issued not more than 15 business days after the receipt of a properly executed Notice of Exercise and payment for the Exercise Price of each Option being exercised. The Company will apply for official quotation on ASX of Shares issued pursuant to the exercise of Options.
- (i) The holder of Options cannot participate in new issues of securities to holders of Shares unless the Options have been exercised and the Shares have been allotted and registered in respect of the Options before the record date for determining entitlements to the issue. The Company must give notice to the holder of the Options of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules. Options can only be exercised in accordance with these terms and conditions.
- (j) If the Company makes a pro rata bonus issue of Shares to holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Shares have been allotted and registered in respect of the exercise of Options before the record date for determining entitlements to the bonus issue, then the number of Shares or other securities for which the holder of the Options is entitled to subscribe on exercise of the Options is increased by the number of Shares or other securities that the holder of the Options would have received if the Options had been exercised before the record date for the bonus issue. No change will be made to the Exercise Price.
- (k) If at any time the capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.



## CERTIFICATE OF APPOINTMENT OF CORPORATE REPRESENTATIVE

### Shareholder Details

This is to certify that by a resolution of the directors of:

..... (**Company**),  
*Insert name of Shareholder Company*

the Company has appointed:

.....,  
*Insert name of corporate representative*

in accordance with the provisions of section 250D of the Corporations Act 2001, to act as the body corporate representative of that Company at an Annual General Meeting of the members of Shark Mitigation Systems Limited to be held on 23 November 2017 commencing at 10.00 am (WST) and at any adjournments of that annual general meeting.

DATED .....

### Please sign here

Executed by the Company )  
in accordance with its constituent documents )  
)

.....  
Signed by authorised representative

.....  
Signed by authorised representative

.....  
Name of authorised representative (print)

.....  
Name of authorised representative (print)

.....  
Position of authorised representative (print)

.....  
Position of authorised representative (print)

### Instructions for Completion

- Insert name of appointing Shareholder Company and the name or position of the appointee corporate representative (eg "John Smith" or "each director of the Company").
- Execute the Certificate following the procedure required by your Constitution or other constituent documents.
- Print the name and position (eg director) of each authorised company officer who signs this Certificate on behalf of the Company.
- Insert the date of execution where indicated.
- Prior to the Meeting, send or deliver the Certificate to the registered office of Shark Mitigation Systems Limited at Level 1, 31 Cliff Street, Fremantle, WA 6160 or fax the Certificate to the registered office at +61 8 6444 7408

**PROXY FORM**  
**APPOINTMENT OF PROXY**  
**SHARK MITIGATION SYSTEMS LIMITED**  
**ABN 77 149 970 445**  
**ANNUAL GENERAL MEETING**

I/We

Address

being a Member of Shark Mitigation Systems Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of proxy (**Please note:** Leave blank if you have selected the Chair of the Annual General Meeting as your proxy.)

OR

☐

the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit, at the Annual General Meeting to be held at 10.00 am (WST) on 23 November 2017 at Level 1, 31 Cliff Street, Fremantle, Western Australia, and at any adjournment of that meeting.

**The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.**

**Voting on Business of the Annual General Meeting**

	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
Resolution 1: Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2: Re-election of Director - David McArthur	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3: Ratification of Issue of Shares and Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4: Approval of 10% placement capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5: Change of name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6: Issue of Options to Craig Anderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7: Issue of Options to Hamish Jolly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Please note:** If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is \_\_\_\_%.

**Signature of Member(s)**

\_\_\_\_\_ **Date:** \_\_\_\_\_

**Individual or Member 1**

**Sole Director/Company Secretary**

**Member 2**

**Director**

**Member 3**

**Director/Company Secretary**

**Contact Name:** \_\_\_\_\_ **Contact Ph (daytime):** \_\_\_\_\_ **Date:** \_\_\_\_\_



# **SHARK MITIGATION SYSTEMS LIMITED**

**ABN 77 149 970 445**

## **ANNUAL REPORT**

**For the year ended 30 June 2017**

**SHARK MITIGATION SYSTEMS LIMITED**  
**CONTENTS**

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**CONTENTS**

	Page
Corporate Directory .....	3
Review of Operations .....	4
Directors' Report .....	7
Auditor's Independence Declaration .....	18
Corporate Governance Statement .....	19
Consolidated Statement of Financial Position .....	28
Consolidated Statement of Profit or Loss and other Comprehensive Income .....	29
Consolidated Statement of Changes in Equity .....	30
Consolidated Statement of Cash Flows .....	31
Notes to the Consolidated Financial Statements .....	32
Directors' Declaration .....	67
Independent Auditor's Report .....	68
Stock Exchange Information .....	72

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## **CORPORATE DIRECTORY**

### **Directors**

Craig Anderson  
Hamish Jolly  
David McArthur

### **Secretary**

David McArthur

### **Registered and Principal Office**

Level 1, 31 Cliff Street  
Fremantle WA 6160

Website: [www.sharkmitigation.com](http://www.sharkmitigation.com)

Email: [enquiry@sharkmitigation.com](mailto:enquiry@sharkmitigation.com)

Telephone: +61 8 9435 3200

Facsimile: +61 8 6444 7408

### **Postal Address**

PO Box 584  
Fremantle WA 6959

### **Auditors**

HLB Mann Judd (WA Partnership)  
Level 4, 130 Stirling Street  
Perth WA 6000

### **Bankers**

ANZ Banking Group Limited  
Level 11, 172 St Georges Terrace  
Perth WA 6000

### **Share Registry**

Computershare Investor Services Pty Ltd  
Level 11, 172 St Georges Terrace  
Perth WA 6000

Telephone: +61 1300 552 270

### **ASX Code**

Shares: SM8

### **Legal Form of Entity**

Public company

### **Country of Incorporation and Domicile**

Australia

## SHARK MITIGATION SYSTEMS LIMITED

### REVIEW OF OPERATIONS

For the year ended 30 June 2017

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## REVIEW OF OPERATIONS

### OVERVIEW

Shark Mitigation Systems Limited is an Australian marine technology company listed on the Australian Securities Exchange (ASX:SM8). The Company has developed and commercialised award-winning patented products to mitigate the risk of shark attacks. The Company's product portfolio includes three key areas of activity:

1. **Clever Buoy™** – a marine monitoring platform and warning system
2. **SAMS™** – visual technology applied to wetsuits and watersports products
3. **Seabin™** – a device that catches floating rubbish and makes oceans cleaner

### HIGHLIGHTS

#### Shark Detection Technology and Consumer Warning System | Clever Buoy

The Company's Clever Buoy shark detection was contracted by the world professional surfing governing body, World Surf League, for the JBay Pro Open in South Africa. The official event was held between 6th – 17th July in Jeffrey's Bay, which was the scene of Australian surfer Mick Fanning's close encounter with a white pointer shark 12 months prior. The deployment was highly successful, and provided very welcomed protection for the professional surfers, while generating a global platform for the Company.

Clever Buoy was selected by the Western Australian State Government for a trial installation at City Beach in the Perth metropolitan area. The \$500,000 project resulted in Clever Buoy being installed between the groynes at City Beach, and operated for a three months period in the Summer of 2016/17. The deployment was 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 Clever Buoy being deployed 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.

In May 2017, Bruce "Hoppe" Hopkins joined Shark Mitigation Systems team as the Company's ambassador for the Clever Buoy System. Bruce is the chief lifeguard at Bondi Beach in Sydney and has had first-hand experience in implementing the Company's shark detection and notification system into beach safety procedures. Bruce's high profile in the award-winning television series *Bondi Rescue* and his decades of lifeguard services provide the Company with a highly credible ambassador for the Clever Buoy system.

Effective from 1 July 2017 the Group has entered into an agreement with Ian Cairns, a former champion surfer and current Head Coach of the PacSun USA Surf Team. Cairns will provide consultancy services, introduce the Company to key contacts and decision makers and assist in formulating the business plan for Clever Buoy deployments into the Californian and greater United States market.

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.

## **SHARK MITIGATION SYSTEMS LIMITED**

### **REVIEW OF OPERATIONS**

**For the year ended 30 June 2017**

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#### **Visual Technology | SAMS**

In July 2016, the company appointed Mr Simon O'Sullivan as General Manager of the Visual Technology Division, SAMS™. Simon joins the company with over 27 years of experience in the Australian Water Sport and Surf Industry, which included senior roles with iconic brands such as Rip Curl, Gath and Rusty.

In September 2016, the Company showcased its SAMS™ technology at the global surf industry's major trade show, SurfExpo, in Florida, USA. With over 27,000 attendees from a broad cross section of water sports segments, it provided a significant opportunity for the industry to discover and learn about the potential applications of SAMS™ technology. Significant leads were developed from this event, and the team is engaged with some major international brands as a result.

The Company also 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.

The SAMS technology requires continued testing of the various products with wild sharks in their natural habitat to be firmly established as a scientifically valid product. With the current increasing level of interest in the Company's Clever Buoy technology and the magnitude of the opportunity, the Board have decided that at this stage in the Company's development that the Company does not have the resources, both financial and personnel, available to commit to ongoing rigorous testing of the SAMS products. Whilst the Company will still own the SAMS technology, in the foreseeable future it will defer further commercialisation activities of the SAMS technology.

#### **The Seabin Project**

Seabin is a revolutionary environmental technology for cleaning plastic rubbish and floating or suspended waste from marina and protected water environments. The Company holds a 20% equity interest in Seabin Pty Ltd and provides corporate guidance and support for the continued development and commercialisation of the technology.

The team at Seabin have been undertaking pilot partner installations in marinas in San Diego, California, Helsinki, Finland, Port Adriano, Spain, Bermuda and Montenegro.

Seabin is currently completing agreements with manufacturing and distribution partners in anticipation of commercial sales commencing in September 2017.

#### **CORPORATE ACTIVITY**

##### **Placement of shares and issue of options and performance shares**

On 26 August 2016, the Company issued 125,000 fully paid shares and 125,000 options pursuant to an endorsement agreement with Rabbit Hill Pty Ltd, a company controlled by Taj Burrow. The issue price of the shares was 20 cents each with a total value of \$25,000. The 125,000 options are exercisable at 25 cents each with an expiry date of 30 June 2019.

The Company also issued 300,000 performance shares to TB Asset, a company controlled by Taj Burrow, as approved by shareholders on 24 August 2016. The performance shares will be converted one for one to fully paid shares in the Company upon achievement of certain performance milestones relating to revenue generation.

On 17 January 2017, the Company signed a licence agreement with global surf brand Rusty to incorporate the SAMS™ visual technology into Rusty's Australian surfboard portfolio. This announcement resulted in the Group achieving the Class A performance milestone and consequently, on 20 January 2017, 11,599,140 performance shares were converted to fully paid shares.

On 5 February 2017, 6,465,041 fully paid shares were released from escrow and included in the ASX quoted shares upon the end of the ASX imposed restriction period.

**SHARK MITIGATION SYSTEMS LIMITED**  
**REVIEW OF OPERATIONS**  
**For the year ended 30 June 2017**

**CORPORATE ACTIVITY (continued)**

On 7 June 2017, the Company issued 250,000 fully paid shares and 400,000 options pursuant to an endorsement agreement with Life Guard Hoppo Enterprises, a company controlled by Bruce Hopkins. The issue price of the shares was 10 cents each with a total value of \$125,000. The 400,000 options are exercisable at 5 cents each with an expiry date of 1 June 2020.

**ISSUED CAPITAL at 18 September 2017**

Ordinary Shares	66,889,253
Unlisted Options	12,525,000
Performance Shares	17,698,710

**FINANCIAL RESULTS AND CONDITION**

Revenue for financial year 2017 was \$671,027 (2016: \$384,365). The loss for the financial year ended 30 June 2017 attributable to members of Shark Mitigation Systems Limited after income tax was \$3,566,436 (2016: loss of \$724,129).

The Group has a working capital surplus of \$913,915 at 30 June 2017 (2016: \$2,915,576) and had net cash outflows of \$2,152,947 (2016: net cash inflow of \$2,737,976).

The Company remains acutely aware of the current economic climate and continues to implement cost reduction measures across the business.

**Summary of results**

	<b>2017</b> <b>\$</b>	<b>2016</b> <b>\$</b>
Revenue from ordinary activities	671,027	384,365
Loss before income tax	(4,098,161)	(761,262)
Income tax benefit	531,725	37,133
Loss attributable to owners of Shark Mitigation Systems	(3,566,436)	(724,129)
Other comprehensive income	-	-
Underlying loss per share (cents)	(5.93)	(2.10)
Shares on issue at reporting date <sup>(1)</sup>	66,889,253	54,915,113
Weighted average number of shares	60,186,855	34,479,116

<sup>(1)</sup> Shares on issue at reporting date includes 100 shares held in Shark Attack Mitigation Systems Pty Ltd which are not listed. These shares were held prior to the reverse takeover of Shark Attack Mitigation Systems Pty Ltd in 2016.

**PLANNED ACTIVITY – FY 2018**

The Company will seek to implement the growth strategies as outlined in the review of operations above.



# SHARK MITIGATION SYSTEMS LIMITED

## DIRECTORS' REPORT

For the year ended 30 June 2017

### DIRECTORS' REPORT

The Directors present their report together with the financial statements of Shark Mitigation Systems Limited (the Company) and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2016 and the auditor's report thereon.

#### 1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Name and status	Experience, qualifications, special responsibilities and other directorships
<p><b>Hamish Jolly</b> Non-executive Director</p> <p>Appointed: 29 January 2016</p> <p><u>Interests:</u> Shares: 17,094,279 Performance Shares: 7,788,446</p>	<p>Hamish is an ocean swimmer and specialist in industry-led marine science innovation, R&amp;D and technology commercialisation. Commencing his career in aquatic zoological research programs, he holds formal postgraduate qualifications in business and innovation, and is a qualified Chartered Accountant. Mr Jolly's career spans investment, development, technology and finance.</p> <p>In 2006, Hamish was awarded in the WA Business News 40 Under 40 recognising the top 40 business leaders under 40 years of age in Western Australia. He is a Member of the Board of Botanic Gardens and Parks Authority (Kings Park) in Western Australia. Hamish is the former National Chief Executive Officer of Greening Australia, Australia's largest environmental NGO and formerly Director of Biogass Renewables Pty Ltd, an Australian waste to energy development company.</p> <p>His 2014 TED Talk (Ideas Worth Sharing) on the subject of SAM shark visual systems research and commercialisation is in a top-10 list at TED.com with over 2.2 million views.</p> <p>Hamish is Chair of the Nominations and Remuneration Committee and is a member of the Audit and Risk Management Committee.</p>
<p><b>Craig Anderson</b> Managing Director</p> <p>Appointed: 29 January 2016</p> <p><u>Interests:</u> Shares: 17,240,259 Performance Shares: 7,788,446</p>	<p>Craig is a passionate surfer and water sports enthusiast. He has a strong background in developing and commercialising new ventures and the management of corporations.</p> <p>Craig is a primary production specialist with a diverse background in a significant number of soft commodities in Australia and Asia. He has tertiary qualifications in forestry and business management and more than 25 years' experience in developing, financing and managing large-scale enterprises. He has held a number of executive and board positions in both private and public companies in Australia and has strong experience of project management and trade in Australian and Asian jurisdictions.</p> <p>Craig has a strong background in commercialising innovate projects. This has included various forestry and horticultural commodities as well as carbon and environmental offset projects in Australia and Asia. He has a strong background in the start-up sector and has been involved in a number of business initiatives in the last 15 years.</p>

# SHARK MITIGATION SYSTEMS LIMITED

## DIRECTORS' REPORT

For the year ended 30 June 2017

### 1. DIRECTORS (continued)

Name and status	Experience, qualifications, special responsibilities and other directorships
<b>David McArthur</b> Independent Non-executive Director and Company Secretary  Appointed: 29 January 2016  <u>Interests:</u> Shares: 170,000	<p>David is a Chartered Accountant, having spent four years with a major international accounting firm, and has 32 years' experience in the accounting profession. He has been actively involved in the financial and corporate management of a number of public listed companies over the past 29 years.</p> <p>David has a Bachelor of Commerce Degree from the University of Western Australia. He has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies.</p> <p>David was appointed as an Executive Director of Lodestar Minerals Limited on 13 August 2007 and a Non-executive Director of Xstate Resources Limited on 3 September 2013.</p> <p>David was Non-executive Director of Saggasco Limited from 15 November 2016 until 1 February 2017, and a Non-executive Director of Renewable Heat &amp; Power Limited from 14 August 2013 until 2 February 2017.</p> <p>David is Chair of the Audit and Risk Management Committee and is a member of the Nominations and Remuneration Committee.</p>

### 2. COMPANY SECRETARY

David McArthur was appointed to the position of Company Secretary on 29 January 2016.

### 3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 30 June 2017, and the number of meetings attended by each director was:

Director	Full meetings of directors		Meetings of audit and risk management committee	
	No. of meetings attended	No. of meetings held whilst a director	No. of meetings attended	No. of meetings held whilst a director
Hamish Jolly	4	4	2	2
Craig Anderson	4	4	2	2
David McArthur	4	4	2	2

The audit, finance, remuneration and nomination, risk management and environmental functions are handled by the full board of the Company.

The small size of the board means that Members of the Board meet informally on a very regular basis to discuss company operations, risks and strategies, and as required, formalise key actions through circular resolutions.

# SHARK MITIGATION SYSTEMS LIMITED

## DIRECTORS' REPORT

For the year ended 30 June 2017

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### 4. PRINCIPAL ACTIVITIES

The principal activity of the Group is the design and development of shark mitigation and ocean technology.

### 5. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial results of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

#### Significant changes in the state of affairs

In the opinion of the directors there were no matters that significantly affected the state of affairs of the Group during the financial year, other than those matters referred to in the overview above.

### 6. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 30 June 2017 (2016: nil).

### 7. LIKELY DEVELOPMENTS

The Group will continue to further develop the visual systems for large predatory sharks, to consolidate and expand the various technologies that have, and continue to be, developed to mitigate the occurrence of shark attacks on humans and to globally commercialise the near shore shark detection and alert systems.

### 8. ENVIRONMENTAL REGULATION

The Group's operations are not regulated by any significant environmental regulations under the law of the Commonwealth or of a State or Territory in Australia however the Group aims to ensure the highest standard of environmental care is achieved.

### 9. SHARE OPTIONS

#### Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price cents	Number of shares
30-Jun-19	25	5,125,000
31-Jan-20	20-30	7,000,000
1-Jun-20	5	400,000
		<hr/> 12,525,000 <hr/>

All unissued shares are ordinary shares of the Company.

These options do not entitle the holder to participate in any share issue of the Company.

During or since the end of the financial year, no shares were issued as a result of the exercise of options.

#### Options expired

Nil options expired during the reporting period (2016: nil).

## SHARK MITIGATION SYSTEMS LIMITED

### DIRECTORS' REPORT

For the year ended 30 June 2017

#### 10. PERFORMANCE SHARES

At the date of this report, the following performance shares were on issue:

Issue date	Expiry date	Number of performance rights
2-Feb-16	2-Feb-21	17,398,710
24 Aug-16	24-Aug-19	300,000
		<u>17,698,710</u>

The number of performance shares on issue at 30 June 2016 was 28,997,850.

On 17 January 2017, global surf brand Rusty signed a licence agreement with the Group to incorporate Shark Attack Mitigation Systems (SAMST<sup>TM</sup>) visual technology into Rusty's Australian surfboard portfolio. This resulted in the Group achieving the Class A performance share milestone. As a result, on 20 January 2017, 11,599,140 performance shares were converted to 11,599,140 fully paid ordinary shares in the Company. These new shares are subject to escrow restriction until 12 May 2018.

Pursuant to shareholder approval at a general meeting on 24 August 2016, the Company issued 300,000 performance shares to T B Asset, a company controlled by Taj Burrow for endorsement of the visual technology.

#### 11. EVENTS SUBSEQUENT TO THE REPORTING DATE

Other than as disclosed in note 6.7 of the notes to the consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

#### 12 INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of \$18,077 (2016: \$5,574) to insure the directors and key management of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

No agreements have been entered into to indemnify the Group's auditors against any claims by third parties arising from their report on the Annual Financial Statements.

## SHARK MITIGATION SYSTEMS LIMITED

### DIRECTORS' REPORT

For the year ended 30 June 2017

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#### 13. NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (HLB Mann Judd) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year, the following fees were paid or are payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2017 \$	2016 \$
<b>HLB Mann Judd Australia:</b>		
<b><i>Other assurance services</i></b>		
Investigating Accountant's Report for IPO	-	10,000
<b>Total remuneration for non-audit services</b>	<b>-</b>	<b>10,000</b>

#### 14. PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

# SHARK MITIGATION SYSTEMS LIMITED

## DIRECTORS' REPORT

For the year ended 30 June 2017

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### 15. REMUNERATION REPORT - AUDITED

The Directors present the Company's 2017 Remuneration Report prepared in accordance with the Corporations Act 2001. The Report sets out the detailed remuneration information for Executive and Non-executive Directors of the Group.

The report contains the following sections:

- (a) Remuneration governance
- (b) Executive remuneration strategy and framework
- (c) Service contracts
- (d) Non-executive director remuneration
- (e) Directors' remuneration
- (f) Other director disclosures
- (g) Voting and comments made at the Company's 2016 Annual General Meeting

#### (a) Remuneration governance

The determination of remuneration of directors and key management is the responsibility of the Remuneration and Nomination Committee.

#### (b) Executive remuneration strategy and framework

Remuneration is referred to as compensation throughout this report.

Compensation levels for key management personnel of the Group are set to attract, retain and motivate a highly qualified and experienced management team with the necessary skills and attributes to lead the Group in achieving its business objectives. The strategy also aims to encourage management to strive for superior performance by rewarding the achievement of targets that are challenging, clearly understood and within the control of individuals to achieve through their own actions.

The objective of the Group's executive remuneration framework is to ensure that remuneration for performance is competitive and appropriate for the results delivered. The framework aligns executive remuneration with achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice for delivery of reward.

As the Group's principal activities during the year involved the implementation and commercialisation of the Company's technologies, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The Group's reward framework is designed to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience.

#### ***Executive remuneration mix***

The remuneration of the Managing Director and other KMP can be structured as a mix of fixed remuneration and variable "at risk" remuneration through short-term and long-term incentive components.

## SHARK MITIGATION SYSTEMS LIMITED

### DIRECTORS' REPORT

For the year ended 30 June 2017

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#### 15. REMUNERATION REPORT – AUDITED (continued)

##### (b) Executive remuneration strategy and framework (continued)

###### **Fixed compensation**

Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group, and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not “at risk” but is appropriately benchmarked and set with reference to role, responsibilities, skills and experience.

###### **Performance-linked compensation**

Performance-linked compensation can consist of both short-term and long-term remuneration. Performance-linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group is at the stage of commercialising its technologies. Vesting of long term incentives is based on the share price performance of the Group, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan.

###### **Short-term incentive**

Short term incentives (STI) reward employees for their individual achievements and contributions to business success and organisation outcomes during the financial year. STI's are a variable reward and are not guaranteed.

The Board considers the appropriate targets and Key Performance Indicators (KPI's) to link the STI and the level of payment if targets are met. This includes capping the maximum payout under the STI scheme and determining the minimum levels of performance to trigger payment of the STI's. Depending upon the level of management, KPI's include the following:

- satisfactory completion of development programs, on time and on budget;
- securing funding to support planned work programs;
- investor relations; and
- consideration of safety performance, corporate governance, external relations and general management.

###### **Long-term incentive**

Long-term incentives (LTI) can comprise share options and/or performance rights (PR), which can be granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

The Company has adopted an Employee Incentive Option Plan (Plan) as approved by shareholders at a General Meeting on 24 August 2016. Under the Plan, the Company may grant options to Company eligible employees and consultants to attract, motivate and retain key employees over a period of three years up to a maximum of 15% of the Company's total issued ordinary shares at the date of the grant.

# SHARK MITIGATION SYSTEMS LIMITED

## DIRECTORS' REPORT

For the year ended 30 June 2017

### 15. REMUNERATION REPORT - AUDITED (continued)

#### (b) Executive remuneration strategy and framework (continued)

##### *Consequences of performance on shareholder wealth*

The overall level of key management personnel compensation takes into account the performance of the Company over a number of years, although no remuneration is directly linked with financial performance.

Performance in respect of the current financial year and the previous four financial years is detailed below:

Shareholder returns	2017	2016	2015	2014	2013
Net (loss) / profit attributable to equity holders (\$)	(3,566,436)	(724,129)	113,325	-	-
Basic loss per share EPS (cents)	(5.93)	(2.10)	-	-	-
Share price at year end (cents)	7.40	22.50	n/a	n/a	n/a
Market capitalisation (\$)	4,949,805	12,355,900	n/a	n/a	n/a
Net tangible assets / (liabilities) (NTA) (\$)	1,433,324	2,673,986	(61,233)	n/a	n/a
NTA Backing (cents)	2.14	4.87	0.21	n/a	n/a

During the financial years noted above, there were no dividends paid or other returns of capital made by the Company to shareholders.

#### (c) Service contracts

On appointment to the Board, all non-executive directors enter into a letter of appointment with the Company specifying their functions and duties as a Director.

Executive director and Key Management Personnel (KMP) remuneration and other terms of employment are formalised in service agreements. The service agreements outline the components of compensation paid to the executive director and key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account any change in the scope of the role performed by the executive director and KMPs and any changes required to meet the principles of the compensation policy. The major provisions of the agreement relating to remuneration of the Managing Director are set out below.

Name *	Term of agreement	Employee notice period	Employer notice period	Base salary **	Termination Benefit ***
Craig Anderson	Ongoing from 29 January 2016	Three months	Three months	\$250,000	Three months' base salary

\* On 29 January 2016, an Executive Services Agreement was entered into with Craig Stephen Anderson effective 29 January 2016.

\*\* In addition to the base salary, the Company will make employer contributions on behalf of Mr Anderson to his nominated superannuation fund of an amount equivalent to the salary multiplied by the superannuation guarantee charge rate applicable at the time (currently 9.50%).

\*\*\* Termination benefits are payable upon early termination by the Group, other than for gross misconduct. They are equal to base salary and superannuation payable for the notice period.



**SHARK MITIGATION SYSTEMS LIMITED****DIRECTORS' REPORT****For the year ended 30 June 2017****15. REMUNERATION REPORT - AUDITED (continued)****(d) Non-executive director remuneration**

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Remuneration and Nomination Committee.

The fees approved by the Board are inclusive of the statutory superannuation amount.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$350,000 per annum.

Non-executive directors' base fees currently range from \$30,000 to \$60,000 per annum and they do not receive cash performance related compensation. Directors' fees cover all main board activities and memberships of sub-committees.

**(e) Directors' remuneration**

Name		Short-term employee benefits		Post-employment benefits	Total
		Salary and fees	Non-monetary benefits	Super-annuation	
		(A) \$	(B) \$	\$	\$
<b>Executive director</b> Craig Anderson <sup>(1)</sup>	2017	267,308	6,025	23,750	297,083
	2016	111,538	1,858	9,987	123,383
<b>Non-executive directors</b> Hamish Jolly <sup>(1)</sup>	2017	54,795	6,026	5,205	66,026
	2016	23,042	1,858	2,189	27,089
David McArthur <sup>(1)</sup>	2017	27,397	6,026	2,603	36,026
	2016	11,521	1,858	1,094	14,473
Sub-total non-executive directors' remuneration	2017	82,192	12,052	7,808	102,052
	2016	34,563	3,716	3,283	41,562
<b>Total directors' remuneration</b>	<b>2017</b>	<b>349,500</b>	<b>18,077</b>	<b>31,558</b>	<b>399,135</b>
	<b>2016</b>	<b>146,101</b>	<b>5,574</b>	<b>13,270</b>	<b>164,945</b>

<sup>(1)</sup> Appointed 29 January 2016

**Notes in relation to the table of directors' remuneration**

(A) Includes annual leave;

(B) Comprises Directors and Officers insurance premiums;

**SHARK MITIGATION SYSTEMS LIMITED****DIRECTORS' REPORT****For the year ended 30 June 2017****15. REMUNERATION REPORT - AUDITED (continued)****(f) Other director disclosures*****Director option holdings***

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

***Director performance share holdings***

	<b>Held at 30 June 2016</b>	<b>Converted to fully paid shares <sup>(1)</sup></b>	<b>Held at 30 June 2017</b>	<b>Convertible at 30 June 2017</b>
<b>Executive directors</b>				
Craig Anderson	12,980,743	(5,192,297)	7,788,446	7,788,446
<b>Non-executive directors</b>				
Hamish Jolly	12,980,743	(5,192,297)	7,788,446	7,788,446

<sup>(1)</sup> Class A Performance Shares converted to fully paid shares on 20 January 2017 upon achievement of Class A Performance Share milestone. These new shares are subject to escrow restriction until 12 May 2018.

***Director shareholdings***

	<b>Held at 30 June 2016</b>	<b>Acquired on conversion of performance shares</b>	<b>Purchases</b>	<b>Held at 30 June 2017</b>
<b>Executive directors</b>				
Craig Anderson	11,947,962	5,192,297	90,000	17,230,259
<b>Non-executive directors</b>				
Hamish Jolly	11,851,982	5,192,297	50,000	17,094,279
David McArthur	70,000	-	95,000	165,000

No short-term incentive cash bonuses have been awarded as remuneration to directors of the Company.

Details of other transactions with key management personnel not involving direct compensation are disclosed in note 6.3.

**(g) Voting and comments at the Company's 2016 Annual General Meeting**

The Company received 96.63% of "yes" votes on its remuneration report for the 30 June 2016 financial year.

**THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.**

**SHARK MITIGATION SYSTEMS LIMITED**

**DIRECTORS' REPORT**

**For the year ended 30 June 2017**

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**16. LEAD AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

This Director's report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'C. Anderson', with a long horizontal stroke extending to the right.

**CRAIG ANDERSON**

Director

Dated this 29<sup>th</sup> day of September 2017.

**SHARK MITIGATION SYSTEMS LIMITED**  
**LEAD AUDITOR'S INDEPENDENCE DECLARATION**

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Accountants | Business and Financial Advisers

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the consolidated financial report of Shark Mitigation Systems Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

*HLB Mann Judd*

**Perth, Western Australia**  
**29 September 2017**

A handwritten signature in blue ink, appearing to read 'M R Ohm'.


**M R Ohm**  
**Partner**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

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HLB Mann Judd (WA Partnership) is a member of  International, a world-wide organisation of accounting firms and business advisers

## **CORPORATE GOVERNANCE STATEMENT**

The 2017 Corporate Governance Statement is dated as at 30 June 2017 and reflects the corporate governance practices in place throughout the 2017 financial year.

Shark Mitigation System Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of Corporate Governance. The Board continues to review the framework and practices to ensure that they meet the interests of shareholders. The Company and its controlled entity together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. Additionally, they comply with the 3<sup>rd</sup> edition of the ASX Corporate Governance Principles and Recommendations. A copy of the Corporate Governance policies is contained on the Company's web site.

### **Board of Directors**

#### **Role of the Board**

The matters expressly reserved to the Board of Directors are set out in a written policy and include:

- Establishment of long-term goals of the Group and strategic plans to achieve these goals
- Monitoring the achievement of these goals
- Review of the management accounts and reports to monitor the progress of the Group
- Review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance
- Review and approval of the annual and interim financial reports
- Nominating and monitoring the external auditor
- Approving all significant business transactions
- Appointing and monitoring senior management
- All remuneration, development and succession issues
- Ensuring the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities
- Overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities
- Ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board
- Ensuring that the Company reports on its measurable objectives in relation to gender diversity and assesses annually both the objectives and progress in achieving gender diversity

The Board delegates day to day operational matters to the Managing Director of the Company.

The Board evaluates this policy on an ongoing basis.

#### **Board Composition**

The Directors' Report contains details of the Directors' skills, experience and education. The Board seeks to establish a Board that consists of Directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Group's business with excellence. To maintain this, the Group's policy is that Executive Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

## SHARK MITIGATION SYSTEMS LIMITED

### CORPORATE GOVERNANCE STATEMENT

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#### Board Composition (continued)

The specific skills that the Board collectively bring to the Company include:

- Industry Experience/ technical qualification
- Commercial experience
- Public company experience
- Analytical expertise
- Financial expertise
- Risk Management experience
- Strategic planning experience
- Strategic leadership experience
- Corporate Governance expertise
- Communications experience
- Inter personal experience

The chair of any sub committees formed by the Board has specific skills in the area for which they are responsible.

The Board does not have a director with legal experience. Any legal work is out-sourced to external legal advisers.

The Board comprises one independent Non-Executive Director, one Non-Executive Director (who is not deemed independent) and one Executive Director.

Directors' details are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new Directors and has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent Director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate.

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a Director.

The appointment of the Directors must be approved by the majority of the Shareholders at the first Annual General Meeting after the appointment.

#### Retirement and Re-election of Directors

The Constitution of the Company requires one third of Directors (or the number nearest one third, rounded up), other than the Managing Director, to retire from office at each Annual General Meeting. No Director (other than the Managing Director) shall hold office for a period in excess of three years without seeking re-election.

Directors who have been appointed by the Board are required to retire from office at the Annual General Meeting following their appointment and are not taken in to account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders.

## **SHARK MITIGATION SYSTEMS LIMITED**

### **CORPORATE GOVERNANCE STATEMENT**

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#### **Independence of Directors**

The Board has reviewed the position and association of each of the Directors in office at the date of this report and considers that only David McArthur can be deemed independent. In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

Although Mr Jolly has no material business or contractual relationship to the Company, nor any material pecuniary interest with the Company, he is not considered independent due to his substantial shareholding in the Company. Other than his shareholding, Mr Jolly does satisfy the test for independence.

#### **Director Education**

All new Directors complete an induction process. The Non-Executive Directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge. The Board are specifically provided the opportunity to enhance their financial, regulatory and compliance skills in relation to public companies through external courses.

#### **Independent Professional Advice**

With prior approval of the Board, each Director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

#### **Board Performance Review**

The performance of all Directors is assessed through review by the Board as a whole of a Director's attendance at and involvement in Board meetings, their performance and other matters identified by the Board or other Directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

The Directors conducted an internal performance evaluation of the Members of the Board during the reporting period.

#### **Director Remuneration**

Details of the Group's remuneration policies are included in the "Remuneration Report" section of the Directors Report.

Non-Executive Directors will be remunerated by cash payments (including statutory superannuation), may receive equity performance incentives and will not be provided with any benefits for ceasing to be a Director. The Executive Directors can be remunerated by both fixed remuneration and equity performance based remuneration, subject to obtaining all regulatory approvals from shareholders. A reasonable period of notice of termination is required and is detailed in the Executive's employment contract.

#### **Managing Business Risk**

The Group maintains policies and practices designed to identify and manage significant risks including:

- regular budgeting and financial reporting
- procedures and controls to manage financial exposures and operational risks
- the Group's business plan
- corporate strategy guidelines and procedures to review and approve the Group's strategic plans
- Establish and continuously assess a Group Risk Profile which identifies all significant risk to the Group and controls that are in place to minimise or mitigate the risk.
- insurance and risk management programs which are reviewed by the Board

### **Managing Business Risk (continued)**

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings.

The Board's review of business risk is also based on reports from the Audit and Risk Management Committee.

The Board receives regular reports about the financial condition and operating results of the consolidated Group. The Managing Director and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Group's financial reports present a true and fair view of the Group's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Group's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

The Company assesses its exposure to economic, environmental and social sustainability risks. The Board assesses the likely impact of changes and implements strategies to minimise exposure to these specific risks. Due to risk procedures adopted by the Company, it is not believed the Company has a material exposure to these risks.

The Company does not have an internal audit function. The Board has determined that the established internal controls for the Company, combined with the work of the audit and risk management committee, at this stage satisfactorily address the function that would otherwise be dealt with by an internal audit function.

### **Internal Controls**

Procedures have been established at the Board and Executive management levels that are designed to safeguard the assets and interests of the Group, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To ensure these established procedures are being followed, the Directors:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

### **Board Committees**

#### **Audit and Risk Management Committee**

The role of the Audit and Risk Management Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be Non-Executive Directors.

The primary role of the Audit function of the Committee is to:

- Assist the Board in fulfilling its overview of the audit process
- Assist the Board in overseeing financial reporting
- Assist the Board in fulfilling its overview of the systems of internal control which the Board and management have established
- Monitor, review and recommend the adoption of the financial statements of the Company
- Regularly review the adequacy of accounting, internal controls, reporting and other financial management systems and practices of the Company
- Review the financial report and other financial information distributed externally
- Review any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles



## SHARK MITIGATION SYSTEMS LIMITED

### CORPORATE GOVERNANCE STATEMENT

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#### Audit and Risk Management Committee (continued)

- Review audit reports to ensure that if major deficiencies or breakdowns in controls or procedures are identified, appropriate and prompt remedial action is taken by management
- Review the nomination and performance of the auditor
- Liaise with external auditors and ensure that the annual and half-year statutory audits are conducted in an effective manner
- Monitor the establishment of appropriate ethical standards
- Monitor the procedures in place to ensure compliance with the Corporations Act 2001, Australian Accounting Standards, ASX Listing Rules and all other regulatory requirements
- Address any matters outstanding with the auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the ASX and financial institutions; and
- Improve the quality of the accounting function

The primary role of the risk function of the committee is to assist the Board in its oversight of the Company's management of key risks, including strategic and operational risks, as well as the guidelines, policies and processes for monitoring and mitigating such risks.

Risk assessment and risk management are the responsibility of the Company's management. The Committee has an oversight role and in fulfilling that role, it relies on the reviews and reports received from management.

The Committee shall have the following authority and responsibilities:

- Review and discuss with management the Company's risk governance structure, risk assessment and risk management practices and the guidelines, policies and processes in place for risk management
- Review and discuss with management the Board's risk appetite and strategy relating to key risks, including credit risk, liquidity and funding risk, market risk, product risk and reputational risk, as well as the guidelines, policies and processes for monitoring and mitigating such risks
- Discuss with the Company's executive team the Company's risk assessment and risk management guidelines, policies and processes, as the case may be. The Risk Committee meets separately at least twice a year with the executive team
- Receive, as and when appropriate, reports from the Company's Executive General Manager-Corporate & Risk on the results of risk management reviews and assessments
- Review disclosure regarding risk contained in the Company's Annual Report
- Review and assess the nature and level of insurance coverage
- Initiate and monitor special investigations into areas of corporate risk or breakdowns in internal controls
- Discharge any other duties or responsibilities delegated to the Committee by the Board
- Delegate any of its responsibilities to subcommittees as the Committee may deem appropriate
- Retain such outside counsel, experts and other advisors as the committee may deem appropriate in its sole discretion and approve related fees
- Report its actions and any recommendations to the Board
- Review at least annually the adequacy of this Charter and recommend any proposed changes to the board for approval

The Committee consists of the following Non-Executive Directors:

- Mr David McArthur (Committee Chair)
- Mr Hamish Jolly (Committee member)

## SHARK MITIGATION SYSTEMS LIMITED

### CORPORATE GOVERNANCE STATEMENT

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#### **Audit and Risk Management Committee (continued)**

The auditors and the Managing Director are invited to attend Audit and Risk Management Committee meetings at the discretion of the Committee.

The Audit and Risk Management Committee met twice during the year.

#### **Remuneration and Nomination Committee**

The Remuneration and Nomination Committee operates in accordance with its Charter. The main responsibilities of the Committee are:

- Determine remuneration policies and remuneration of Directors
- Determine remuneration and incentive policies of Key Executives
- Determine the Group recruitment, retention and termination policies and procedures for senior management
- Determine and review incentive schemes
- Ensure all Directors and senior executives have a written agreement setting out the terms of their appointment.
- Evaluate senior executive performance on an annual basis; this occurred during the 2016 financial year
- Determine and review superannuation arrangements of the Group
- Determine and review professional indemnity and liability insurance for Directors and senior management
- Review the Board composition to ensure the Board has the correct balance of skills and expertise
- Appointment of the Managing Director and the Company Secretary
- Approve the recommendation for the appointment of key management personnel presented to the Committee by the Managing Director
- Performance appraise the Board members and the Managing Director
- Succession planning for Board members and the Managing Director
- Approve the recommended succession planning for key management personnel presented to the Committee by the Managing Director
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary

The Remuneration and Nomination Committee can seek independent external advice from consultants with specific industry experience relevant to Shark Mitigation System's remuneration assessment.

Specific policies and procedures regarding remuneration determination is contained within the Directors Report.

The Committee consists of the following Non-Executive Directors:

- Mr Hamish Jolly (Committee Chair)
- Mr David McArthur (Committee Member)

The Committee did not have a specific need to meet during the year.

## **SHARK MITIGATION SYSTEMS LIMITED**

### **CORPORATE GOVERNANCE STATEMENT**

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#### **Ethical Standards**

##### **Code of Conduct**

In pursuit of the highest level of ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Group's affairs. This code is provided to all Directors and employees. The code stipulates that any unethical behaviour is to be reported to the Group's Managing Director as soon as possible.

The Code of Conduct is based on respect for the law and the rights of individuals, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

##### **Trading in the Company's Securities by Directors and Employees**

The Board has adopted a policy in relation to dealings in the securities of the Group which applies to all Directors and employees. Under the policy, Directors are prohibited from short-term or "active" trading in the Group's securities and Directors and employees are prohibited from dealing in the Group's securities whilst in the possession of price sensitive information. The Company's Managing Director must be notified of any proposed transactions in the Company's shares.

Any Director or employee receiving shares pursuant to the Company's equity based remuneration scheme (refer to the remuneration report) is not permitted to enter into transactions which limit the economic risk of participating in the scheme.

This policy is provided to all Directors and employees. Compliance with it is reviewed on an on-going basis in accordance with the Company's risk management systems.

##### **Continuous Disclosure**

The Group has in place a continuous disclosure policy, a copy of which is provided to all Group officers and employees who may from time to time be in possession of undisclosed information that may be material to the price or value of the Group's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules and to ensure officers and employees of the Group understand these obligations.

The procedure adopted by the Group is essentially that any information which may need to be disclosed must be brought to the attention of the Board (where practicable) and any other appropriate personnel (including external advisors if deemed appropriate) will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

At least once every 12 months' period, the Board will review the company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

##### **Communication with Shareholders**

The Board aims to ensure that Shareholders are kept fully informed of all major developments affecting the Group. Information is communicated to Shareholders as follows:

- As the Company is a disclosing entity, regular announcements are made to the ASX in accordance with the Group's disclosure policy, including the half-year review, the year-end audited accounts and an Annual Report
- The Board ensures the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments

## SHARK MITIGATION SYSTEMS LIMITED

### CORPORATE GOVERNANCE STATEMENT

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#### Communication with Shareholders

- Shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry or electronically via the website
- Shareholders are provided the opportunity to receive communications electronically through the Company's share registry
- Any proposed major changes in the Group's affairs are submitted to a vote of Shareholders, as required by the Corporations Act 2001 and the ASX Listing Rules
- The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All Shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group
- The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report
- The Board seek feedback from proxy advisers to assess the appropriateness and adequacy of its reporting to shareholders

The Board reviews this policy and compliance with it on an ongoing basis.

#### Diversity Policy

The Group is committed to workplace diversity at all levels and recognises the benefits arising from employee and Board diversity. The benefits include a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talent.

The Group recognises that diversity includes matters of age, disability, ethnicity, marital and family status, religion and culture, sexual orientation and gender identity.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and skills and performance
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff
- Appreciate and respect the unique aspects that an individual brings to the workplace
- Where possible and practicable, increase participation and employment opportunities for indigenous people
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace
- Take action to prevent discrimination, harassment, vilification or victimisation
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity
- Identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees, and to offer employees opportunities to reach management levels with the Group

The Board is committed to workplace diversity and has developed measurable objectives and strategies to support the framework and objectives of the Diversity Policy, and the Board is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. For the 2016 financial year the Boards' objectives were met by the Group. The Board assesses the progress and achievement of the objectives.

## SHARK MITIGATION SYSTEMS LIMITED

### CORPORATE GOVERNANCE STATEMENT

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#### Diversity Policy (continued)

Pursuant to ASX Corporate Governance Recommendation 1.5, the Company discloses the following information as at the date of this report:

Percentage details	Women	Men
Women and Men employed within the Group	-	100%
Women and Men at senior management level	-	100%
Women and Men employed at Board level	-	100%
Women and men employed by corporate services provider	75%	25%

#### ASX Corporate Governance principals and recommendations not followed - "if not, why not" approach

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

##### Recommendation 2.1

*A majority of the Board should be independent directors*

##### Recommendation 4.2

*The audit and risk management committee should be structured so that it:*

- *consists only of non-executive directors*
- *consists of a majority of independent directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

##### Recommendation 8.2

*The remuneration and nomination committee should be structured so that it:*

- *consists of a majority of independent directors*
- *is chaired by an independent chair*
- *has at least three members*

Only one of the three directors is considered independent. In view of the size of the Company and the nature of its activities, the Board considers that the current Board structure is a cost effective and practical means of directing and managing the Company.

While the ASX Principles recommend an ideal structure for the audit and risk management and remuneration and nomination committees, they recognise that for smaller Boards it may not be possible to implement such a structure.

Given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with these ASX Principles to be materially detrimental to the Company.

This statement is current as at 30 June 2017 and has been approved by the Board.



Director – Hamish Jolly



Director – David McArthur

**SHARK MITIGATION SYSTEMS LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2017**

	Note	2017 \$	2016 \$
<b>Assets</b>			
Cash and cash equivalents	4.1	624,251	2,777,198
Trade and other receivables	4.2	57,823	104,594
Inventory	4.3	7,732	-
Prepayments		31,869	16,536
Current tax assets		460,518	242,637
<b>Total current assets</b>		<b>1,182,193</b>	<b>3,140,965</b>
Intangible assets	3.1	301,950	1,134,829
Property, plant and equipment	3.2	551,150	-
Investment in associates	6.5	-	48,292
Loans to associates		16,034	14,420
Deferred tax assets	2.6(c)	-	1,745
<b>Total non-current assets</b>		<b>869,134</b>	<b>1,199,286</b>
<b>Total assets</b>		<b>2,051,327</b>	<b>4,340,251</b>
<b>Liabilities</b>			
Trade and other payables	4.4	199,424	186,073
Borrowings	5.2	22,015	12,161
Current tax liabilities		-	-
Employee entitlements	2.4	46,839	6,410
Deferred income		-	20,745
<b>Total current liabilities</b>		<b>268,278</b>	<b>225,389</b>
Borrowings	5.2	47,775	-
Deferred tax liabilities	2.6(c)	-	306,047
<b>Total non-current liabilities</b>		<b>47,775</b>	<b>306,047</b>
<b>Total liabilities</b>		<b>316,053</b>	<b>531,436</b>
<b>Net assets</b>		<b>1,735,274</b>	<b>3,808,815</b>
<b>Equity</b>			
Issued capital	5.1	5,142,917	3,936,393
Reserves		592,871	306,500
Accumulated losses		(4,000,514)	(434,078)
<b>Total equity attributable to equity holders of the Company</b>		<b>1,735,274</b>	<b>3,808,815</b>

The accompanying notes are an integral part of these financial statements.

**SHARK MITIGATION SYSTEMS LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**For the year ended 30 June 2017**

	<b>Note</b>	<b>2017</b> <b>\$</b>	<b>2016</b> <b>\$</b>
<b>Revenue from continuing operations</b>			
Sales	2.2	189,403	378,481
Other revenue	2.3	481,624	5,884
<b>Total Revenue</b>		<b>671,027</b>	<b>384,365</b>
<b>Expenses</b>			
Other operating expenses		(182,735)	-
Marketing and business development		(315,073)	(89,944)
Personnel expenses	2.4	(1,060,676)	(164,945)
General and administration		(201,123)	(71,570)
Professional fees		(335,890)	(433,413)
Depreciation and amortisation		(750,353)	(1,837)
Research and development		(430,141)	-
Finance expenses	2.5	(5,140)	(1,485)
Share-based payments	6.1	(1,159,914)	-
Impairment of intangible assets	3.1	(256,214)	-
Share of (loss) / profit of associate	6.5	(49,767)	48,290
Provision for impairment of investment in associate	6.5	(13,167)	-
Other (losses) and gains		(8,995)	988
Listing expense on acquisition of Shark Mitigation		-	(431,711)
<b>Results from operating activities</b>		<b>(4,098,161)</b>	<b>(761,262)</b>
<b>Loss before income tax</b>		<b>(4,098,161)</b>	<b>(761,262)</b>
Income tax benefit	2.6	531,725	37,133
<b>Loss for the year from continuing operations</b>		<b>(3,566,436)</b>	<b>(724,129)</b>
<b>Loss for the year</b>		<b>(3,566,436)</b>	<b>(724,129)</b>
<b>Total comprehensive loss attributable to owners of the Company</b>		<b>(3,566,436)</b>	<b>(724,129)</b>
<b>Loss per share</b>			
Basic and diluted loss per share (cents per share)	2.7	(5.93)	(2.10)

The accompanying notes are an integral part of these financial statements.

**SHARK MITIGATION SYSTEMS LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 June 2017**

	Note	Attributable to equity holders of the Company			Total
		Share capital	Share-based payments reserve	Accumulated losses	
		\$	\$	\$	\$
Balance at 1 July 2015		100	-	290,051	290,151
<b>Total comprehensive loss for the year</b>		-	-	(724,129)	(724,129)
<b>Transactions with owners, recorded directly in equity</b>					
<i>Contributions by and distributions to owners</i>					
Issue of ordinary shares	5.1	4,528,577	-	-	4,528,577
Share-based payment transactions		-	306,500	-	306,500
Capital raising costs	5.1	(592,284)	-	-	(592,284)
<b>Total contributions by and distributions to owners</b>		3,936,293	306,500	-	4,242,793
<b>Total transactions with owners</b>		3,936,293	306,500	-	4,242,793
<b>Balance at 30 June 2016</b>		3,936,393	306,500	(434,078)	3,808,815
Balance at 1 July 2016		3,936,393	306,500	(434,078)	3,808,815
<b>Total comprehensive loss for the year</b>		-	-	(3,566,436)	(3,566,436)
<b>Transactions with owners, recorded directly in equity</b>					
<i>Contributions by and distributions to owners</i>					
Issue of ordinary shares	5.1	46,750	-	-	46,750
Issue of ordinary shares on conversion of Performance shares	6.1	1,159,914	-	-	1,159,914
Share-based payment transactions		-	286,371	-	286,371
Capital raising costs	5.1	(140)	-	-	(140)
<b>Total contributions by and distributions to owners</b>		1,206,524	286,371	-	1,492,895
<b>Total transactions with owners</b>		1,206,524	286,371	-	1,492,895
<b>Balance at 30 June 2017</b>		5,142,917	592,871	(4,000,514)	1,735,274

The accompanying notes are an integral part of these financial statements



**SHARK MITIGATION SYSTEMS LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2017**

	<b>Note</b>	<b>2017</b> <b>\$</b>	<b>2016</b> <b>\$</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		598,251	421,735
Cash paid to suppliers and employees		(1,485,679)	(615,903)
Interest paid		(3,740)	(1,425)
Interest received		19,149	5,484
Payments for research and development		(430,141)	-
Income taxes received / (paid)		9,542	(1,308)
<b>Net cash used in operating activities</b>	4.1(b)	(1,292,618)	(189,992)
<b>Cash flows from investing activities</b>			
Payments for capitalised research and development		(105,889)	(693,873)
Payments for plant and equipment		(709,673)	(684)
Cash held by Shark Mitigation Systems Limited at acquisition date		-	408,861
Loans to associate		(16,255)	(14,421)
<b>Net cash used in investing activities</b>		(831,817)	(300,117)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares capital	5.1	-	3,500,000
Proceeds from borrowings		-	23,430
Payment of capital raising costs		(3,333)	(282,591)
Payment of transaction costs related to loans		(60)	(60)
Repayment of premium funding facility	5.2	(25,119)	(11,269)
<b>Net cash (used in) / from financing activities</b>		(28,512)	3,228,085
<b>Net (decrease) / increase in cash and cash equivalents</b>		(2,152,947)	2,737,976
Cash and cash equivalents at 1 July		2,777,198	39,222
<b>Cash and cash equivalents at 30 June</b>	4.1(a)	624,251	2,777,198

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 30 June 2017**

### **SECTION 1 BASIS OF PREPARATION**

The notes to the consolidated financial statements have been grouped into sections under six key categories:

1. Basis of preparation
2. Results for the year
3. Assets and Liabilities
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

Significant accounting policies specific to one note are included within that note and where possible, wording has been simplified to provide clearer commentary on the financial report of the Group. Accounting policies determined non-significant are not included in the financial statements.

#### **1.1 GENERAL INFORMATION**

The Company is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at First floor, 31 Cliff Street, Fremantle, WA, 6160.

The Group is primarily involved in the development and commercialisation of marine technology.

The consolidated financial statements of the Group as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") were authorised for issue by the Board of Directors on 29 September 2017. The financial statements are general purpose financial statements which:

- have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency;
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2016. Refer to note 6.9 for further details; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

## SHARK MITIGATION SYSTEMS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 1.2 GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business. The Directors are satisfied the Company is a going concern, notwithstanding it has a working capital surplus of \$913,915 (2016: surplus of \$2,915,576) and a net cash outflow of \$2,152,947 (2016: inflow of \$2,737,976). The Group recorded a loss for the period of \$3,566,436 (2016: loss of \$724,129). The Group had cash and cash equivalents at 30 June 2017 and at 18 September 2017 of \$624,251 and \$439,289 respectively.

The Group is focused on securing contracts and sponsorships in the USA Australia. The Group is also in the process of applying for Research and Development and Export Market Development grants. The Group's cash flow forecast for the period to 30 September 2018 reflects the Group's ability to meet its working capital requirements and its committed and planned development expenditure.

The directors are aware that the Group's ability to continue as a going concern, and thereby pay its debts as and when they fall due, is contingent on the Group securing further working capital through the contracts disclosed above. Alternatives available to the Group include:

- Capital raising such as:
  - Private placement
  - Entitlements issue
  - Share purchase plan
- Borrowings from related or third parties
- Transactions involving the assignment of technology rights to overseas regions

Whilst there is uncertainty regarding the outcomes of funding alternatives, if necessary the Group will delay discretionary expenditure which is not contractually binding and institute cost saving measures to further reduce corporate and administration costs. However, the existence of the above conditions indicates a material uncertainty that may cast significant doubt about whether the entity will be able to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not contain any adjustments to the amounts or classification of recorded assets and liabilities which might be necessary if the Group was not to continue as a going concern.

Given the above financial position of the Group, the Directors have reviewed the Groups' financial position and forecast cash flows and reasonably expect that the Group will be able to raise additional funds to meet future costs within its business plans for at least the next 12 months. Although there is uncertainty as noted above, the directors are of the opinion that the use of the going concern basis is appropriate in the circumstances.

## **SHARK MITIGATION SYSTEMS LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1.3 BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associated is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition charges in the Group's share of net assets of the associates.

Where the Group's share of losses in an associate, equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Where a joint arrangement is classified as a joint operation the Group recognises its proportionate share of revenue, expenditure, assets and liabilities.

#### **1.4 FOREIGN CURRENCIES**

The primary economic environment in which the Group operates is Australia. The consolidated financial statements are therefore presented in Australian dollars.

Transactions in foreign currencies are initially recorded in Australian dollars at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into Australian dollars at the year-end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year-end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

#### **1.5 RESEARCH AND DEVELOPMENT EXPENDITURE TAX OFFSET**

The Group undertakes expenditure on activities that are categorised as 'eligible expenditure' under the Research & Development Tax Concession which dependent upon certain criteria may be subject to a tax offset. Under AASB 120, where a tax offset has been received or is receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalised, the tax offset shall be deducted from the carrying amount of the asset; or
- Where a grant is received or receivable in relation to research and development costs which have been charged to the profit and loss account during this or a prior financial year, the tax offset shall be credited to the profit and loss account.

## SHARK MITIGATION SYSTEMS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 1.6 IMPAIRMENT

##### Financial assets

A financial asset not carried at fair value is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale investments are recognised by reclassifying the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

##### Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets (DTAs), to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or cash generating unit (CGU).

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

#### 1.7 ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included in the following notes:

- *Note 2.6* - *Income tax expense*
- *Note 3.1* - *Intangible assets*
- *Note 6.1* - *Share-based payments*

# SHARK MITIGATION SYSTEMS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2 RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating profit, taxation and earnings per share.

#### Key estimates and assumptions in this section

##### Deferred taxation

The Group has unrecognised carry forward tax losses which can be utilised against future taxable profits.

### 2.1 OPERATING SEGMENTS

#### Information about reportable segments

The Group has identified its operating segments on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group currently operates in two distinct segments:

- SAMS visual technology design, development and commercialisation for wetsuits, water apparel and marine craft applications
- Clever Buoy near shore shark detection device technology design, development and commercialisation

The SAMS visual technology segment generates income through licensing and royalty arrangements with both local and overseas suppliers.

The Clever Buoy technology segment generates income from sale/rental of units, installation, service and support of the systems within Australia and overseas.

Unless otherwise stated, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments, are determined in accordance with *AASB 8 Operating Segments*.

#### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment for the years under review:

	Assets		Liabilities	
	2017 \$	2016 \$	2017 \$	2016 \$
SAMS visual deterrent technology	63,605	328,007	(704)	-
Clever Buoy shark detection technology	813,192	822,111	(54,514)	(26,886)
Total segment assets and liabilities	876,797	1,150,118	(55,218)	(26,886)
Investment in associates	-	48,292	-	-
Loans to associates	16,034	14,420	-	-
Corporate and other segment assets/liabilities	1,158,496	3,127,421	(260,835)	(504,550)
Total	2,051,327	4,340,251	(316,053)	(531,436)

# SHARK MITIGATION SYSTEMS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.1 OPERATING SEGMENTS (continued)

#### Segment assets and liabilities (continued)

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than listing expense and deferred tax assets. Listing expense is allocated to the corporate segment as described in note 1.7(l); and
- all liabilities are allocated to reportable segments other than Group Entity liabilities and deferred tax liabilities.

The chief operating decision maker monitors the cash, receivables and payables position. This is the information that the chief operating decision maker receives and reviews to make decisions.

#### Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segment.

	Revenue		Segment (loss) / profit	
	2017 \$	2016 \$	2017 \$	2016 \$
SAMS visual technology	103,268	8,787	(362,508)	8,202
Clever Buoy shark detection technology	86,135	369,694	(463,086)	368,857
Total for continuing operations	189,403	378,481	(825,594)	377,059
Government grants			461,800	-
Share of (loss) / profit of associate			(49,767)	48,290
Impairment of investment in associate			(13,167)	
Finance income			19,824	5,484
Central and administration expenses			(3,686,117)	(758,899)
Finance expense			(5,140)	(1,485)
Listing expense on acquisition of Shark Mitigation			-	(431,711)
Loss before tax			(4,098,161)	(761,262)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2016.

#### Information about major customers

The Group's top customers greater than 10% of revenue account for 96.57% (2015: 82.04%) of direct sales. The table below shows the split between the two main segments.

Top ranking customers	Percentage of total sales		SAMS technology		Clever buoy technology	
	2017 %	2016 %	2017 \$	2016 \$	2017 \$	2016 \$
First	48.87	-	-	-	92,552	-
Second	26.60	-	50,390	-	-	-
Third	10.95	-	20,745	-	-	-

# SHARK MITIGATION SYSTEMS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.1 OPERATING SEGMENTS (continued)

#### Geographical information

The Group operates its business mainly in Australia, Europe and the USA. During the year, the Group's revenue is mainly derived from Australia and Europe. The Group's revenue and non-current assets (excluding interests in associates and deferred tax assets) by geographical locations are as follows:

	Revenue from external customers		Non-current assets	
	2017 \$	2016 \$	2017 \$	2016 \$
Australia / New Zealand	76,106	378,481	869,134	1,199,286
Europe	92,552	-	-	-
USA	20,745	-	-	-
Loss before tax	189,403	378,481	869,134	1,199,286

Revenue from external customers are attributed to individual countries where customers are located.

Non-current assets comprise property, plant and equipment and intangible assets.

### 2.2 REVENUE

#### Accounting Policy

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

All revenue is stated net of the amounts of goods and services tax (GST).

#### **Rendering of services**

Revenue in relation to rendering of services is recognised depending on whether the outcome of the services can be measured reliably. If this is the case, then the stage of completion of the services is used to determine the appropriate level of revenue to be recognised in the period.

If the outcome cannot be reliably measured, then revenue is recognised to the extent of expenses recognised that are recoverable.

	2017 \$	2016 \$
Research services	157,942	369,694
Rendering of services	20,745	-
Royalties and commissions	10,716	8,787
	189,403	378,481



**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.3 OTHER INCOME**

**Accounting Policy**

Other income is recognised when the amount can be reliably measured and control of the right to receive the income is passed to the Group.

**Finance income**

Interest is recognised using the effective interest method.

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Government grants	461,800	-
Finance income	19,824	5,484
Debt forgiveness	-	400
	<b>481,624</b>	<b>5,884</b>

**2.4 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS**

**Accounting Policy**

**Short-term employee benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

**Share-based payments**

The policy relating to share-based payments is set out in note 6.1.

The table below sets out personnel costs expensed during the year.

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
Wages and salaries		326,424	-
Directors' remuneration	6.3	399,135	164,945
Contributions to defined contribution plans		31,010	-
Increase in liability for annual leave		20,842	-
Equity-settled share based payments		276,446	-
Fringe benefits tax		5,275	-
Other associated personnel expenses		1,544	-
		<b>1,060,676</b>	<b>164,945</b>

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.4 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS (continued)**

The table below sets out employee benefits at the reporting date.

	<b>2017</b>	<b>2016</b>
<b>Current</b>	<b>\$</b>	<b>\$</b>
Salary accrual	(2,081)	-
Superannuation	(198)	-
Liability for annual leave	(44,560)	(6,410)
	<b>(46,839)</b>	<b>(6,410)</b>

**2.5 FINANCE COSTS**

**Accounting Policy**

Finance costs comprise income on funds invested and interest expense on borrowings. Interest expense on short term borrowings is recognised as it accrues in profit or loss, using the effective interest method.

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
<b>Interest expense on financial liabilities measured at amortised cost</b>			
Borrowings		2,436	-
Other borrowings	5.2	1,304	1,425
Other finance charges		1,400	60
Finance expense recognised in profit or loss		<b>5,140</b>	<b>1,485</b>

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.6 INCOME TAX EXPENSE**

**Accounting Policy**

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at the balance date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probably that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

**(a) Amounts recognised in profit or loss**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Current tax benefit / (expense)</b>		
Current tax	198,545	242,115
Deferred tax	304,302	(204,982)
Over provision in prior year	28,878	-
Total income tax benefit	<b>531,725</b>	<b>37,133</b>

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.6 INCOME TAX EXPENSE (continued)**

**(b) Reconciliation of effective tax rate**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Loss for the year	(3,566,436)	(724,129)
Total income tax benefit / (expense)	(531,725)	(37,133)
Loss excluding income tax	(4,098,161)	(761,262)
Income tax at the Australian tax rate of 27.5% (2016: 28.5%)	(1,126,994)	(216,960)
<i>Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:</i>		
Entertainment	4,820	1,429
Share-based payments	410,584	311
Non-assessable income	-	(13,763)
Research and development benefit	(77,212)	(122,087)
Share of loss of associate	13,686	-
Impairment of investment in associate	3,621	-
Listing expense on reverse acquisition	-	123,038
Other permanent differences	2,988	171
Change in corporate tax rate in SBE	(10,677)	(4,966)
Under / (over) provision in prior years	(28,878)	-
Deferred tax assets not brought to account	205,878	195,694
	(531,725)	(37,133)

**(c) Recognised deferred tax assets and liabilities**

Recognised deferred tax assets and liabilities are attributable to the following:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Deferred tax liabilities (DTLs)</b>		
Receivables	2,422	-
Prepayments	8,764	21
Research and development	138,512	305,232
Other temporary differences	-	794
	149,698	306,047
Off-set of deferred tax assets	(149,698)	-
Net deferred tax liability recognised	-	306,047
<b>Deferred tax assets (DTAs)</b>		
Other temporary differences	-	1,745

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.6 INCOME TAX EXPENSE (continued)**

**(d) Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Deferred tax assets (DTAs)</b>		
Tax losses	470,049	171,328
Capital raising costs	47,185	65,159
Employee entitlements	12,309	-
Other temporary differences	38,351	45,347
	567,894	281,834
Off-set of deferred tax liabilities	(149,698)	(4,692)
Net deferred tax assets unrecognised	418,196	277,142

**2.7 LOSS PER SHARE**

**(a) Basic loss per share**

Earnings / (loss) per share (EPS) is the amount of post-tax profit or loss attributable to each share.

The calculation of basic loss per share at 30 June 2017 has been based on the loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

***Loss per share attributable to ordinary shareholders***

	<b>2017</b>	<b>2016</b>
Net loss attributable to ordinary shareholders - \$	(3,566,436)	(724,129)
Issued ordinary shares at 1 July (number)	54,915,113	100
Effect of shares issued (number)	5,271,742	34,479,016
Weighted average number of ordinary shares at 30 June	60,186,855	34,479,116
Basic and diluted loss per share (cents) *	(5.93)	(2.10)

\* At 30 June 2017, 12,525,000 options (2016: 5,000,000 options) and 17,698,710 performance shares (2016: 28,997,850 performance shares) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

## **SECTION 3 ASSETS AND LIABILITIES**

This section focuses on the assets and liabilities which form the core of the ongoing business, including those assets and liabilities which support ongoing development as well as capital and other commitments existing at the year end.

### **Key estimates and assumptions in this section**

#### ***Indicators of impairment***

The Group has reviewed capitalised development for indicators in accordance with AASB 138 and concluded that impairment indicators did not exist at year end. In making this assessment, management is required to make assessments on the status of each project and the future plans towards successful development and commercialisation.

### **3.1 INTANGIBLE ASSETS**

#### **Information about intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

#### **Accounting Policy**

##### ***Research and development***

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years, once the asset is ready for use.

##### ***Patents and trademarks***

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

##### ***Impairment***

Non-current assets are tested for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than an area of interest. The Group performs impairment testing in accordance with note 1.6.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3.1 INTANGIBLE ASSETS (continued)**

	<b>SAMS Patents \$</b>	<b>SAMS Development \$</b>	<b>Clever Buoy Patents \$</b>	<b>Clever Buoy Development \$</b>	<b>Formation Costs \$</b>	<b>Total \$</b>
<b>Gross carrying amount</b>						
Balance at 1 July 2015	12,982	53,487	8,600	277,577	1,253	353,899
Additions	44,556	210,248	120	529,674	-	784,598
<b>Balance at 30 June 2016</b>	<b>57,538</b>	<b>263,735</b>	<b>8,720</b>	<b>807,251</b>	<b>1,253</b>	<b>1,138,497</b>
Balance at 1 July 2016	57,538	263,735	8,720	807,251	1,253	1,138,497
Additions	13,134	-	2,030	-	-	15,164
Impairment	(70,672)	(263,735)	-	-	-	(334,407)
<b>Balance at 30 June 2017</b>	<b>-</b>	<b>-</b>	<b>10,750</b>	<b>807,251</b>	<b>1,253</b>	<b>819,254</b>
<b>Amortisation</b>						
Balance at 1 July 2015	1,763	-	-	-	752	2,515
Amortisation for the year	902	-	-	-	251	1,153
<b>Balance at 30 June 2016</b>	<b>2,665</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,003</b>	<b>3,668</b>
Balance at 1 July 2016	2,665	-	-	-	1,003	3,668
Amortisation for the year	176	75,353	-	516,051	250	591,830
Impairment	(2,841)	(75,353)	-	-	-	(78,194)
<b>Balance at 30 June 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>516,051</b>	<b>1,253</b>	<b>517,304</b>
<b>Carrying amounts</b>						
Balance at 30 June 2016	54,873	263,735	8,720	807,251	250	1,134,829
Balance at 30 June 2017	-	-	10,750	291,200	-	301,950

The SAMS technology requires continued testing of the various products with wild sharks in their natural habitat to be firmly established as a scientifically valid product. At this stage, the Board has decided that the Company does not have the resources available to commit to ongoing rigorous testing of the SAMS products and therefore, believe it is prudent to impair these assets.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3.2 PROPERTY, PLANT AND EQUIPMENT**

	Plant & equipment	Fixtures & fittings	Computer equipment	Motor vehicles	Software	Leasehold improvements	Construction In progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Gross carrying amount</b>								
Balance at 1 July 2016	-	-	-	-	684	-	-	684
Additions	439,292	37,545	12,708	102,909	104,714	5,951	6,554	709,673
<b>Balance at 30 June 2017</b>	<b>439,292</b>	<b>37,545</b>	<b>12,708</b>	<b>102,909</b>	<b>105,398</b>	<b>5,951</b>	<b>6,554</b>	<b>710,357</b>
<b>Depreciation</b>								
Balance at 1 July 2016	-	-	-	-	684	-	-	684
Depreciation for the period	109,583	4,191	12,708	8,336	17,754	5,951	-	158,523
<b>Balance at 30 June 2017</b>	<b>109,583</b>	<b>4,191</b>	<b>12,708</b>	<b>8,336</b>	<b>18,438</b>	<b>5,951</b>	<b>-</b>	<b>159,207</b>
<b>Carrying amounts</b>								
Balance at 30 June 2016	-	-	-	-	-	-	-	-
Balance at 30 June 2017	329,709	33,354	-	94,573	86,960	-	6,554	551,150

**3.3 COMMITMENTS**

**Royalty commitments**

The Group has entered into various license agreements which call for royalties to be paid as a percentage of gross revenue, less agreed deductions. These amounts are yet to be determined.



**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**SECTION 4 WORKING CAPITAL DISCLOSURES**

This section focuses on the cash funding available to the Group and working capital position at year end.

**4.1 CASH AND CASH EQUIVALENTS**

**Accounting Policy**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

**(a) Reconciliation of cash and cash equivalents**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents in the statement of cash flows	624,251	2,777,198

**(b) Reconciliation of cash flows from operating activities**

**Cash flows from operating activities**

Operating loss after tax	(3,566,436)	(724,129)
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**Adjustments for:**

Depreciation and amortisation	750,353	1,837
Equity-settled share-based payment transactions	1,493,035	217,952
Net finance expense	724	60
Share of loss / (profit) of associate	49,767	(48,290)
Impairment of investment in associate	13,167	-
Listing expense on acquisition of Shark Mitigation	-	431,711

**Change in operating assets and liabilities:**

*(Increase) / decrease in:*

Trade and other receivables	45,633	(93,541)
Prepayments	(15,333)	(16,292)
Inventory	(7,732)	-
Current tax assets	(217,881)	(242,637)
Deferred tax assets	1,745	(1,745)
Trade and other payables	109,080	50,560
Interest bearing liabilities	81,410	-
Current tax liabilities	-	(785)
Deferred tax liabilities	(306,047)	206,727
Deferred income	(20,745)	20,745
Employee entitlements	40,428	6,410

**Net Cash used in operating activities**

(1,292,618)	(189,992)
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**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4.2 TRADE AND OTHER RECEIVABLES**

**Accounting Policy**

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the consolidated statement of profit or loss.

	Note	2017 \$	2016 \$
<b>Current</b>			
Trade debtors		42,466	15,780
Authorised government agencies		-	61,373
Other receivables		15,357	27,441
		<b>57,823</b>	<b>104,594</b>

Information about the Group's exposure to credit and market risks is included in note 6.2.

**4.3 INVENTORY**

**Accounting Policy**

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

	2017 \$	2016 \$
<b>Current</b>		
Raw materials	256	-
Sample stock	7,476	-
	<b>7,732</b>	<b>-</b>

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**4.4 TRADE AND OTHER PAYABLES**

**Accounting Policy**

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade payables	173,269	152,320
Authorised government agencies	3,638	-
Non-trade payables and accrued expenses	22,517	33,753
	<b>199,424</b>	<b>186,073</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 6.2.

# SHARK MITIGATION SYSTEMS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 5 EQUITY AND FUNDING

This section focuses on the debt and equity funding available to the Group at year end, most notably covering share capital and loans and borrowings.

#### 5.1 CAPITAL AND RESERVES

##### Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

##### Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	2017	2016	2017	2016
<b>On issue at 1 July</b>	<b>54,915,113</b>	<b>100</b>	<b>3,936,393</b>	<b>100</b>
<b><i>Shares issued and expensed during the year:</i></b>				
Issue of shares at 20 cents each	-	17,500,000	-	3,500,000
Shares for acquisition of SAMS Pty Ltd, deemed consideration for acquisition	-	28,219,005	-	810,625
Shares issued as consideration for introduction fee	-	1,089,758	-	217,952
Shark Mitigation Systems Limited shares on Issue at acquisition date	-	8,106,250	-	-
Issue of shares at 20 cents each pursuant to an agreement with Rabbit Hill	125,000	-	25,000	-
Issue of shares at 10 cents each pursuant to an agreement with Lifeguard Enterprises	250,000	-	21,750	-
Conversion of Class A performance shares upon achievement of milestone criteria	11,599,140	-	1,159,914	-
Capital raising costs	-	-	(140)	(592,284)
<b>On issue at 30 June <sup>(1)</sup></b>	<b>66,889,253</b>	<b>54,915,113</b>	<b>5,142,917</b>	<b>3,936,393</b>

<sup>(1)</sup> Shares on issue at reporting date includes 100 shares held in Shark Attack Mitigation Systems Pty Ltd which are not listed. These shares were held prior to the reverse takeover of Shark Attack Mitigation Systems Pty Ltd in 2016.

The holders of ordinary shares are entitled to receive dividends as declared from time and are entitled to one vote per share at meetings of the Group. Option holders cannot participate in any new share issues by the Group without exercising their options.

In the event of a winding up of the Group, ordinary shareholders rank after all other shareholders (if any) and creditors and are fully entitled to any proceeds on liquidation.

All issued shares are fully paid.

The Company also has share options on issue (see note 6.1).

##### Nature and purpose of reserves

##### **Share-based payments reserve**

The share-based payments reserve represents the fair value of shares to be issued to directors, consultants and employees. This reserve will be transferred to capital once the shares have been issued.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**5.2 LOANS AND BORROWINGS**

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 6.2.

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<i>Unsecured</i>		
Other borrowings	54,513	-
Premium funding facility	15,277	12,161
	<b>69,790</b>	<b>12,161</b>
Current	22,015	12,161
Non-current	47,775	-
	<b>69,790</b>	<b>12,161</b>
<b>Premium Funding Facility</b>		
Opening balance	12,161	-
Premium funding facility	25,410	23,430
Interest expense	1,304	1,425
Less repaid	(23,598)	(12,694)
	<b>15,277</b>	<b>12,161</b>
<b>Other borrowings</b>		
Opening balance	-	-
Loans advanced	56,000	-
Interest expense	2,436	-
Transaction costs	1,340	-
Less repaid	(5,263)	-
	<b>54,513</b>	<b>-</b>

# SHARK MITIGATION SYSTEMS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6 OTHER DISCLOSURES

The disclosures in this section focuses on share schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

#### Key estimates and assumptions in this section

##### Share-based payments

The fair value of share options is measured using the Black-Scholes options pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends (if any) and the risk-free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

In addition, the Group has on issue, performance shares as detailed in note 6.1. Significant judgement is required in relation to assessing the degree of probability associated with the non-market vesting conditions being met.

### 6.1 SHARE-BASED PAYMENT PLANS

#### Accounting Policy

The share option programme allows Group employees to receive rights to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the fair value of an employee share option has been recognised as a share-based payment and the option lapses on expiry, the total amount of the share-based payment expense is transferred from the share-based payment reserve to accumulated losses.

The share-based payment expense included within the consolidated financial statements can be broken down as follows:

	2017 \$	2016 \$
<b>(a) Expensed in personnel expenses</b>		
Options issued to employees	276,445	-
<b>(b) Expensed in professional fees</b>		
Shares issued pursuant to endorsement agreements	46,750	-
Options issued pursuant to endorsement agreements	9,926	-
<b>(c) Expensed in share-based payments</b>		
Shares issued on conversion of Class A performance shares	1,159,914	-
<b>(d) Capital raising costs within equity</b>		
Options issued to the promoter of the acquisition	-	306,500

**6.1 SHARE-BASED PAYMENT PLANS (continued)**

***Equity-settled share option programme***

The Company adopted an Employee Share Options Scheme (ESOS) effective 24 August 2016. Under the ESOS, the Company may grant options and rights to Company eligible participants over a period of 3 years to acquire securities up to a maximum of 15% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes option pricing model.

The options and rights vest on a time scale as specified in the ESOS and are granted for no consideration. Options and rights granted under the plan carry no dividend or voting rights. When exercisable, each option is converted into one ordinary share. The maximum term of an option is 5 years from grant date and the exercise price is settled in cash. Options may not be transferred other than to an associate of the holder.

## SHARK MITIGATION SYSTEMS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 6.1 SHARE-BASED PAYMENT PLANS (continued)

##### Options

At 30 June 2017, a summary of the Group options issued and not exercised are as follows. Options are settled by the physical delivery of shares:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Balance at the end of the year	Vested and exercisable at the end of the year
12-May-16	12-May-16	30-Jun-19	25	5,000,000	-	5,000,000	5,000,000
31-May-16	26-Aug-16	30-Jun-19	25	-	125,000	125,000	125,000
7-Feb-17	7-Mar-17	31-Jan-20	20-30	-	7,000,000	7,000,000	2,000,000
1-Jun-17	31-Dec-17	1-Jun-20	5	-	133,333	133,333	-
1-Jun-17	31-Dec-18	1-Jun-20	5	-	133,333	133,333	-
1-Jun-17	31-Dec-19	1-Jun-20	5	-	133,334	133,334	-
<b>Total</b>				<b>5,000,000</b>	<b>7,525,000</b>	<b>12,525,000</b>	<b>7,125,000</b>
Weighted Average Exercise Price (cents)				25.00	23.27	23.96	
Weighted Average Remaining Contractual Life (years)				3		3	

During the year ended 30 June 2017, nil options were forfeited or expired (2016: nil options forfeited or expired).

At 30 June 2016, a summary of the Group options issued and not exercised are as follows:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Balance at the end of the year	Vested and exercisable at the end of the year
12-May-16	12-May-16	30-Jun-19	25	-	5,000,000	5,000,000	5,000,000
<b>Total</b>				<b>-</b>	<b>5,000,000</b>	<b>5,000,000</b>	<b>5,000,000</b>
Weighted Average Exercise Price (cents)					25	25	



## SHARK MITIGATION SYSTEMS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 6.1 SHARE-BASED PAYMENT PLANS (continued)

##### *Options (continued)*

Key valuation assumptions made at valuation date for options are summarised below:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise price (cents)	25	25	20	25	30	5
Grant date	12-May-16	31-May-16	7-Feb-17	7-Feb-17	7-Feb-17	1-Jun-17
Expiry date	30-Jun-19	30-Jun-19	31-Jan-20	31-Jan-20	31-Jan-20	1-Jun-20
Life of the options (years)	3.13	3.08	2.98	2.98	2.98	3.00
Volatility	50%	93%	90%	90%	90%	113.97%
Risk free rate	2.00%	1.83%	1.81%	1.81%	1.81%	1.66%

##### Tranche 6 Vesting Conditions

The first 133,333 options vest when Lifeguard "Hoppo" Enterprises Pty Ltd ('LHE') (or an entity controlled by Bruce Hopkins) achieves an introduction to the Company resulting in net revenue of greater than US\$300,000;

The second 133,333 options vest when LHE (or an entity controlled by Bruce Hopkins) achieves an introduction to the Company resulting in net revenue of greater than US\$600,000;

The third 133,334 options vest when LHE (or an entity controlled by Bruce Hopkins) achieves an introduction to the Company resulting in net revenue of greater than US\$900,000;

##### *Performance shares*

At 30 June 2017, a summary of the Group performance shares issued and not exercised are as follows:

Note	Grant date	End of performance period	Scheme type	Balance at the start of the year	Granted during the year	Exercised during the year	Balance at the end of the year	Vested and exercisable at the end of the year
(i)	2-Feb-16	2-Feb-21	Class A	11,599,140	-	11,599,140	-	-
(ii)	2-Feb-16	2-Feb-21	Class B	8,699,355	-	-	8,699,355	-
(iii)	2-Feb-16	2-Feb-21	Class C	8,699,355	-	-	8,699,355	-
(iv)	24-Aug-16	24-Aug-19	Class D	-	100,000	-	100,000	-
(v)	24-Aug-16	24-Aug-19	Class E	-	100,000	-	100,000	-
(vi)	24-Aug-16	24-Aug-19	Class F	-	100,000	-	100,000	-

## SHARK MITIGATION SYSTEMS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 6.1 SHARE-BASED PAYMENT PLANS (continued)

##### *Performance shares (continued)*

Each performance share represents a right to be issued one ordinary share by the end of the performance period, with no exercise price payable, should either of the vesting conditions in each class be met:

- (i) On 20 January 2017, following the execution of a new licensing agreement for the application of the SAMST<sup>TM</sup> technology by an entity involved in the production or distribution of marine apparel and/or equipment (SAMST<sup>TM</sup> Licensing Agreement), 11,599,140 performance shares were exercised;
- (ii) Class B
  - (A) annualised earnings before interest, tax, depreciation and amortisation (EBITDA) of at least \$2,000,000 in relation to the Company's Intellectual Property; or
  - (B) revenue of at least \$4,000,000 in relation to the Company's Intellectual Property; or
  - (C) in the event that a SAMST<sup>TM</sup> Licensing Agreement has already been achieved, the execution of a Clever Buoy<sup>TM</sup> Contract; or
  - (D) execution of a second SAMST<sup>TM</sup> Licensing Agreement; or
  - (E) in the event that a Clever Buoy<sup>TM</sup> Contract has been achieved, execution of a SAMST<sup>TM</sup> Licensing Agreement; or
  - (F) the execution of a second Clever Buoy<sup>TM</sup> Contract.
- (iii) Class C
  - (A) an annualised EBITDA of at least \$3,000,000 in relation to the Company's Intellectual Property; or
  - (B) revenue of at least \$5,000,000 in relation to the Company's Intellectual Property; or
  - (C) in the event that two SAMST<sup>TM</sup> Licensing Agreements have already been achieved, a third SAMST<sup>TM</sup> Licensing Agreement; or
  - (D) in the event that two Clever Buoy<sup>TM</sup> Contracts have been achieved, execution of a third Clever Buoy<sup>TM</sup> Contract; or
  - (E) in the event that one SAMST<sup>TM</sup> Licensing Agreement and one Clever Buoy<sup>TM</sup> Contract have been achieved, either a second SAMST<sup>TM</sup> Licensing Agreement, or a second Clever Buoy<sup>TM</sup> Contract.
- (iv) Class D - In the event Rabbit Hill (or an entity controlled by Rabbit Hill) achieves an introduction to the Company resulting in revenue of greater than US\$300,000
- (v) Class E - In the event Rabbit Hill (or an entity controlled by Rabbit Hill) achieves an introduction to the Company resulting in revenue of greater than US\$600,000
- (vi) Class F - In the event Rabbit Hill (or an entity controlled by Rabbit Hill) achieves an introduction to the Company resulting in revenue of greater than US\$900,000

The Director's assess at each reporting date, the likelihood the above vesting conditions will be met. To the extent a class of performance shares is considered probable, the Company will record an associated share-based payment expense based upon the fair value of the associated performance shares at grant date and the number of performance shares issued. During the financial year, 11,599,140 performance shares vested and an associated share-based payment expense of \$1,159,914 has been recorded. In relation to the remaining classes of performance shares, management has determined that there is insufficient information at present to indicate that they will vest.

## **6.2 FINANCIAL RISK MANAGEMENT**

### **Accounting Policy**

#### **Classification of financial instruments**

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with AASB 139 *Financial Instruments*:

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Financial liabilities measured at amortised cost – separately disclosed as borrowings and trade and other payables

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

#### **Recognition and de-recognition of financial assets and liabilities**

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

### **Overview**

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.2. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents. The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. The demographics of the Group's customer base have little influence on credit risk and there is no concentration of risk demographically.

**Exposure to credit risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at reporting date was:

	<b>Carrying amount</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Trade debtors	42,466	15,780
Authorised government agencies	675	61,373
Other receivables	14,682	27,441
Cash and cash equivalents	624,251	2,777,198
	<b>682,074</b>	<b>2,881,792</b>

At 30 June 2017, the Group's maximum exposure to credit risk for trade receivables was primarily attributable to Australian customers. No collateral risk is held as security for this credit risk. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. There were no favourable derivative financial instruments at the end of the reporting period.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities excluding the impact of netting arrangements:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>12 months or less</b>	<b>More than one year</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>30 June 2017</b>				
<b>Non-derivative financial liabilities</b>				
Trade and other payables	201,703	203,514	203,514	-
Interest bearing liabilities	69,790	69,077	26,880	42,197
	<b>271,493</b>	<b>272,591</b>	<b>230,394</b>	<b>42,197</b>
<b>30 June 2016</b>				
<b>Non-derivative financial liabilities</b>				
Trade and other payables	186,073	186,073	186,073	-
Interest bearing liabilities	12,161	12,694	12,694	-
	<b>198,234</b>	<b>198,767</b>	<b>198,767</b>	<b>-</b>

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

# SHARK MITIGATION SYSTEMS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6.2. FINANCIAL RISK MANAGEMENT (continued)

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change to the manner in which the Group manages market risk from the previous year.

#### Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. At the reporting date, this risk was not material.

#### Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

#### Exposure to interest rate risk

The interest rate profile of the Group's interest bearing financial instruments as reported to management of the Group is as follows:

Category	2017		2016	
	Weighted	Balance	Weighted	Balance
	Average		Average	
	Interest rate		Interest rate	
	%	\$	%	\$
Cash and cash equivalents	1.210	624,251	0.979	2,777,198

#### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities (including the premium funding facility) at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would not have had a material effect on the result for the year or equity.

#### Fair value measurements

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

Fair value measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, accruals and employee entitlements have been excluded from the above analysis as their fair values are equal to the carrying values. The carrying value of interest bearing borrowings approximate its fair value.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.3 RELATED PARTIES**

Key management personnel compensation included in 'personnel expenses' (note 2.4) comprises the following:

	<b>Note</b>	<b>2017</b> \$	<b>2016</b> \$
Short term employee benefits		367,577	151,675
Post-employment benefits		31,558	13,270
	2.4	399,135	164,945

**Individual directors and executives' compensation disclosures**

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' report in section 15.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

**Other key management personnel transactions**

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies.

A number of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		<b>Transactions value</b>		<b>Balance outstanding</b>	
	<b>Note</b>	<b>2017</b> \$	<b>2016</b> \$	<b>2017</b> \$	<b>2016</b> \$
<b>Key management Transaction</b>					
David McArthur Management fee	(i)	72,000	30,000	12,000	6,000
Total and current liabilities				12,000	6,000

**Key to table**

- (i) The Company paid a management fee to Broadway Management Pty Ltd, a company associated with Mr McArthur, for the management of the accounting, financial reporting and statutory compliance functions of the Company.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.4 SUBSIDIARIES**

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group	
				2017 %	2016 %
Shark Attack Mitigation Systems Pty Ltd		Australia	30 June	100	100

**6.5 ASSOCIATES**

Details of the Group's material associates at the end of the reporting period are as follows:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2017 %	2016 %
Seabin Pty Ltd	Marina cleaning technology	Australia	20%	20%

The above associate is accounted for using the equity method in these consolidated financial statements.

	2017 \$	2016 \$
Interests in associates	-	48,292
<b>Reconciliation of movement in investments accounted for using the equity method</b>		
Balance at 1 July	48,292	-
Investment	14,642	2
Share of (loss) / profit for the year	(49,767)	48,290
Impairment of investment	(13,167)	-
Balance at 30 June	-	48,292

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**6.5 ASSOCIATES (continued)**

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with AASBs adjusted by the Group for equity accounting purposes.

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Financial position</b>		
Current assets	14,552	223,749
Non-current assets	24,564	32,132
Current liabilities	(19,994)	-
Non-current liabilities	(26,496)	(14,420)
<b>Financial performance</b>		
Revenue	46,838	348,458
(Loss) / profit for the year	(248,834)	241,450
Total comprehensive income / (loss) for the year	(248,834)	241,450

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Net (liabilities) / assets of the associate	(7,374)	241,461
Proportion of the Group's ownership interest in associate	20%	20%
Carrying amount of the interest in associate	-	48,292



**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.6 PARENT COMPANY DISCLOSURES**

As at, and throughout the financial year ended 30 June 2017, the parent entity of the Group was Shark Mitigation Systems Limited.

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Result of the parent entity</b>		
Loss for the year	(3,689,816)	(688,036)
Other comprehensive income	-	-
Total comprehensive loss for the year	(3,689,816)	(688,036)
<b>Financial position of parent entity at year end</b>		
Current assets	579,674	2,806,953
Total assets	1,980,162	4,055,633
Current liabilities	(113,898)	(121,962)
Total liabilities	(113,898)	(121,962)
<b>Total equity of the parent entity comprising of:</b>		
Share capital	6,155,774	4,949,250
Reserves	592,871	306,500
Accumulated losses	(5,011,895)	(1,322,079)
<b>Total equity</b>	<b>1,736,750</b>	<b>3,933,671</b>

**6.7 SUBSEQUENT EVENTS**

In July 2017, the Company entered into a manufacturing licence agreement with Boardlams, a southern Californian production company, to accelerate the roll-out of SAMST<sup>TM</sup> visual technology into the sizeable US water sports market. Boardlams has perfected the printing of images onto specialist materials used in the manufacturing process of watercraft, such as surfboards. This includes printing onto rice paper and fibreglass cloth for incorporation into new water craft, and to vinyl stickers for new and used applications. The manufacturing licence agreement will see SAMST<sup>TM</sup> visual technology sold into the US market using Boardlam's highly respected product and long-standing reputation globally.

On 29 August 2017, the Company announced the global launch of a direct-to-market supply chain for its SAMST<sup>TM</sup> visual technology. In addition to the roll out of SAMST<sup>TM</sup> marine grade vinyl stickers and fibreglass inlays in major retail surf stores in California, the Company will launch a global online store where customers can directly purchase the Company's products.

Other than as disclosed above, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.8 AUDITORS' REMUNERATION**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>HLB Mann Judd Australia:</b>		
Audit and review of financial reports	44,500	28,850
Investigating Accountant's Report for IPO	-	10,000
<b>TOTAL AUDITORS' REMUNERATION</b>	<b>44,500</b>	<b>38,850</b>

It is the Group's policy to employ HLB Mann Judd on assignments additional to their statutory audit duties where HLB Mann Judd's expertise and experience with the Group are important. These assignments are principally tax advice, or where HLB Mann Judd is awarded assignments on a competitive basis. It is the group's policy to seek competitive tenders for all major consulting projects.

**6.9 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

Except for the changes below, the Group has consistently applied the accounting policies set out in the notes to the consolidated financial statements to all periods presented in these consolidated financial statements.

Except for the changes below, the Group has consistently applied the accounting policies set out in the notes to the consolidated financial statements to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2016.

- (a) *AASB 14 Regulatory Deferral Accounts (for first time adopters)*
- (b) *AASB 2014-1 Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts)*
- (c) *AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations*
- (d) *AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation*
- (e) *AASB 2014-9 Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements*
- (f) *AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- (g) *AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*
- (h) *AASB 2015-9 Amendments to Australian Accounting Standards - Scope and Application Paragraphs*
- (i) *AASB 2015-10 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128*
- (j) *AASB 1057 Application of Australian Accounting Standards*

The adoption of these standards and interpretations did not have a material impact on the Group.

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 June 2017

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 9	Financial Instruments (2014)	The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace AASB 139 <i>Financial Instruments: Recognition and Measurement</i> . The Standard carries over the existing derecognition requirements from AASB 139 but all other areas of AASB 139 have been revised. AASB 9 introduces new requirements for classifying and measuring financial assets,	1 January 2018	1 July 2018
AASB 15	Revenue from Contracts with Customers	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 <i>Construction Contracts</i> , AASB 118 <i>Revenue</i> , Interpretation 13 <i>Customer Loyalty Programmes</i> , and Interpretation 15 <i>Agreements for the Construction of Real Estate</i> , Interpretation 18 <i>Transfers of Assets from Customers</i> , and Interpretation 131 <i>Revenue-Barter Transactions Involving Advertising Services</i> . The core principle is that an entity recognises revenue to depict the transfer of promised goods or services.	1 January 2018	1 July 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15 ( <i>not yet fully compiled</i> )	This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.	1 January 2018	1 July 2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 ( <i>December 2014</i> )	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 January 2018	1 July 2018
AASB 2014-10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Addresses a conflict between the requirements of AASB 128 <i>Investments in Associates and Joint Ventures</i> and AASB 10 <i>Consolidated Financial Statements</i> and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.	1 January 2018	1 July 2018

**SHARK MITIGATION SYSTEMS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)**

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2016-1	Recognition of Deferred Tax Assets for Unrealised Losses	Amends AASB 112 <i>Income Taxes</i> to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
AASB 2016-2	Disclosure Initiative: Amendments to AASB 107	Amends AASB 107 <i>Statement of Cash Flows</i> to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017

There will be no significant impact on the Group's results and disclosures on the adoption of the above standards.

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2016-1	Recognition of Deferred Tax Assets for Unrealised Losses	Amends AASB 112 <i>Income Taxes</i> to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
AASB 16	Leases	The new Standard introduces three main changes: - Enhanced guidance on identifying whether a contract contains a lease; - A completely new leases accounting model for lessees that require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets; - Enhanced disclosures. Lessor accounting will not significantly change.	1 January 2019	1 July 2019

Whilst management are in the process of assessing the future application of the above standards to the Group, the impact is not expected to be material.

**DIRECTORS' DECLARATION**  
**For the year ended 30 June 2017**

The Directors of the Group declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001, and:
  - a. comply with Accounting Standards, which, as stated in accounting policy note 1.1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS), the Corporations Regulations 2001 and other mandatory reporting requirements; and
  - b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Group;
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
  - a. the financial records of the Group for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and note for the financial year give a true and fair view.
3. In the Directors' opinion, as set out in note 1.2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors:



**CRAIG ANDERSON**  
Managing Director

Dated: 29 September 2017

**INDEPENDENT AUDITOR'S REPORT**

To the members of Shark Mitigation Systems Limited

**Report on the Audit of the Financial Report***Opinion*

We have audited the financial report of Shark Mitigation Systems Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Material uncertainty related to going concern*

We draw attention to Note 1 in the financial report, which indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty

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related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
<b>Recognition and recoverability of intangible assets</b> (Note 3.1)	
<p>The Group has recorded intangible assets of \$558,163 as at 30 June 2017 which relate to both the Clever Buoy and the SAMS technology.</p> <p>Recognition and recoverability of intangible assets relating to these technology was considered to be a key audit matter due to its importance to users of the financial statements and the degree of audit effort directed towards this area.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>- Reviewing amounts capitalised as intangible assets during the year to ensure such items met the recognition criteria within Australian accounting standards;</li> <li>- Considering the existence of any indicators of impairment under AASB 136 'Impairment of Assets'.</li> <li>- Where impairment indicators were present, critically considering management's assessment of recoverable amount.</li> <li>- Ensuring that appropriate disclosures were made within the financial report in relation to any impairment recorded.</li> </ul>
<b>Share-based payments</b> (Note 6.1)	
<p>The Group has entered into various share-based payment arrangements with both key management personnel and external parties.</p> <p>We have considered this to be a key audit matter as we consider it a significant risk under auditing standards and it requires significant management judgement involving estimates that have a degree of estimation uncertainty.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>- Considering the treatment of the share-based payment arrangements entered into by the Group to ensure these are consistent with the requirements of AASB 2 'Share-based payment'; and</li> <li>- Reviewing the treatment of vesting conditions in relation to the amounts recorded for share-based payments during the period.</li> </ul>

#### *Information other than the financial report and auditor's report thereon*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on the Remuneration Report**

#### *Opinion on the remuneration report*

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Shark Mitigation Systems Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



**HLB Mann Judd**  
**Chartered Accountants**



**M R Ohm**  
**Partner**

**Perth, Western Australia**  
**29 September 2017**

## SHARK MITIGATION SYSTEMS LIMITED

### STOCK EXCHANGE INFORMATION

## STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 31 August 2017:

### 1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	8	2,318	-
1,001 - 5,000	144	478,054	0.71
5,001 - 10,000	108	948,504	1.42
10,001 - 100,000	324	13,007,498	19.45
100,001 and over	54	52,452,779	78.42
<b>Total</b>	<b>638</b>	<b>66,889,153</b>	<b>100.00</b>

There were 274 holders of less than a marketable parcel of ordinary shares.

### 2. Substantial shareholders

The substantial shareholders are set out below:

Shareholders	Number of Shares
Ms Michelle Anne Anderson <The MCA A/C>	17,044,279
Mr Hamish Andrew Jolly <Jolly Family A/C>	17,044,279
Pannard Management Pty Ltd <The PC Lushey No.1 A/C>	4,515,041

### 3. Voting rights

#### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

#### Options and rights

No voting rights.

### 4. Unlisted options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
02-Feb-16	5,000,000	7	30-Jun-19	25
31-May-16	125,000	1	30-Jun-19	25
7-Feb-17	7,000,000	2	31-Jan-20	20-30
1-Jun-17	400,000	1	1 Jun-20	5

There are 12,525,000 unlisted options issued to 11 holders.

## SHARK MITIGATION SYSTEMS LIMITED

### STOCK EXCHANGE INFORMATION

#### 5. Unlisted performance rights

There are 17,698,710 performance rights issued to take up ordinary shares:

- 15,576,892 issued to 2 directors
- 2,121,818 issued to 3 holders

#### 6. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
Ms Michelle Anne Anderson <The MCA A/C>	17,044,279	25.48
Mr Hamish Andrew Jolly <Jolly Family A/C>	17,044,279	25.48
Pannard Management Pty Ltd <The PC Lushey No.1 A/C>	4,515,041	6.75
Mr Alan Peter Lawson <Lawson Family A/C>	1,734,467	2.59
Shane Wee <Wee Family A/C>	575,000	0.86
ACNS Capital Markets Pty Ltd <ACNS Unit A/C>	569,837	0.85
Mr Ernest Robert Kennedy & Mrs Annette Marie Kennedy <Kennedy Family S/Fund A/C>	525,000	0.78
Stockley Davis <Australian Sport and Recreation>	518,750	0.78
Mrs Judith Suzanne Piggin & Mr Damien Jaye Piggin & Mr Glenn Adam Piggin <Piggin Family S/F>	500,000	0.75
Chicago Holdings Pty Ltd	490,000	0.73
Mr Ross Milner McKay & Ms Christine Stuart Babbage <McKay Super Fund A/C>	465,000	0.70
Beaurama Pty Ltd <Phillips Investment A/C>	435,000	0.65
Mr Kevin Daniel Leary & Mrs Helen Patricia Leary <Kevin & Helen Leary S/F A/C>	400,000	0.60
Nipuron Pty Ltd <John Norup Family A/C>	375,000	0.56
Mr Christopher Richard Brown	362,500	0.54
Carey Smith	351,419	0.53
Kaffir Securities Pty Ltd <Tecoma Super Fund A/C>	350,000	0.52
Mr Rodney Barry Ruttiman and Mrs Jane Lorrie Ruttiman	255,405	0.38
Jasgo Pty Ltd	250,000	0.37
Lifeguard Hoppo Enterprises Pty Ltd	250,000	0.37