



SMART MARINE SYSTEMS LIMITED

(Formerly Shark Mitigation Systems Limited)

ABN 77 149 970 445

APPENDIX 4D AND INTERIM REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2017

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Rule 4.2A.3

APPENDIX 4D

Reporting period ("current period")	Half-year ended 31 December 2017
Previous corresponding period	Half-year ended 31 December 2016

1 Results for announcement to the market

					\$
1.1	Revenue from ordinary activities	down	83.03%	to	31,183
1.2	Loss from ordinary activities after tax for the period attributable to owners of the Company	up	118.05%	to	(1,133,122)
1.3	Total comprehensive loss for the period attributable to owners of the Company	up	118.05%	to	(1,133,149)

		Amount per share cents	Franked amount per share cents
1.4	Dividends		
	Final, in respect of year ended 30 June 2017	Nil	Nil
	Interim, in respect of year ending 30 June 2018	Nil	Nil
1.5	Record date for determining entitlement to dividend		N/A
1.6	Brief explanation of figures (if necessary)		

During the past six months the Company has focused on developing new markets and planning a pilot installation of the Clever Buoy shark detection system in California, USA, and part of a larger roll-out across six beaches in Orange County, California.

The net loss for the consolidated entity after providing for income tax amounted to \$1,133,122 (31 December 2016: loss of \$519,672). The loss for the period includes research and development expenses, amortisation and personnel expenses.

2 Net tangible assets

	Current period \$	Previous corresponding period \$
Net tangible asset backing per ordinary share	0.01	0.04

3 Details of entities over which control has been gained or lost

Name of Entity	Date of gain of control	Contribution to the reporting entity's loss
Clever Buoy Australia Pty Ltd	30 August 2017	\$766
Clever Buoy (USA) LLC	15 December 2017	\$5,224

4 Dividends

Amount per security

		Amount per security	Franked amount per security at 27.5% tax	Amount per security of foreign source dividend
		cents	cents	cents
Final dividend	- paid during current period	Nil	Nil	Nil
	- paid during previous corresponding period	Nil	Nil	Nil
Interim dividend	- declared for current period	Nil	Nil	Nil
	- declared for previous corresponding period	Nil	Nil	Nil

Total dividend declared on all securities in respect of the period

	Current period \$	Previous corresponding period \$
Ordinary securities	Nil	Nil

5 Dividend reinvestment plans

There was no dividend reinvestment plan in operation during the current period.

6 Details of associates

Name of entity	Percentage of ownership interest held at end of period		Contribution to net profit / (loss)	
	Current period %	Previous corresponding period %	Current period \$	Previous corresponding period \$
Seabin Pty Ltd	20.00%	20.00%	3,027	-

7 Accounting standards

The condensed consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations ("AASBs") adopted by the Australian Accounting Standards Board ("AASB"). The condensed consolidated financial statements also comply with International Financial Reporting Standards adopted by the International Accounting Standards Board.

8 Independent auditor's review

The attached financial statements have been subject to review by the independent auditor.

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.smartmarinesystems.com
Email: enquiry@smartmarinesystems.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

DIRECTORS' REPORT

Change of Company Name

At the Company's 2017 Annual General Meeting on 23 November 2017, a resolution was passed by shareholders to change the Company name from Shark Mitigation Systems Limited to Smart Marine Systems Limited. The name change was recorded with ASIC on 29 November 2017 and became effective on the ASX from the commencement of trading on 13 December 2017.

The directors of Smart Marine Systems Limited (the "Company") submit herewith the financial report of the Company and its subsidiaries (the "Group") for the half year ended 31 December 2017 and the directors' report as follows:

1. DIRECTORS

The directors of the Company at any time during or since the end of the interim period are:

Name	Period of directorship
Hamish Jolly	Director since 29 January 2016
Craig Anderson	Director since 29 January 2016
David McArthur	Director since 29 January 2016

Executive director and Non-executive director remuneration

On 11 December 2017, the Company issued 4,000,000 options to Craig Anderson and 2,000,000 options to Hamish Jolly, pursuant to shareholder approval granted at the 2017 Annual General Meeting on 23 November 2017. The options are exercisable at 10 cents each on or before 31 December 2020.

2. OPERATING AND FINANCIAL REVIEW

Background

Smart Marine Systems Limited (formerly Shark Mitigation Systems Limited) is an Australian marine technology company listed on the Australian Stock Exchange (ASX:SM8). The Company has developed and commercialised award-winning patented products. The Company's product portfolio currently 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 make oceans cleaner

The company has continued to increase its global footprint with significant inroads into the USA Market and Seabin commencing commercial production and sales in Europe.

Shark Detection Technology | Clever Buoy

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.

2. OPERATING AND FINANCIAL REVIEW (continued)

Shark Detection Technology | Clever Buoy (continued)

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. Mr Cairns provides consultancy services, introduces the Company to key contacts and decision makers and assists in formulating the business plan for Clever Buoy deployments into the Californian and greater United States market.

In September 2017 United States Federal Congressman Dana Rohrabacher and Newport Beach Mayor Kevin Muldoon held a press conference to announce support for a pilot installation of the Clever Buoy shark detection system in Newport, California. The pilot installation is part of a proposed US\$10 million pilot program for further installations of Clever Buoy system at six beaches in Orange County, California. The announcement was made at the proposed site of the first installation of Clever Buoy, Corona Del Mar Beach where a near-fatal shark attack took place in May 2016.

The US has experienced a significant rise in shark populations and negative interactions in recent years. The proposed pilot project in California will use Clever Buoy to assist lifeguards and beach authorities in mitigating the risk of shark attacks along their coastline. The US has over 3300 patrolled beaches, and the Federal, State and Local governments are proactively keen to implement non-invasive methods to protect beach goers.

The Company has been working with Orange County officials in recent months on an integrated shark management plan that includes installation of Clever Buoy systems at six beaches along their coastline. Formal support by US Federal Government representatives and the scale of the US market is an excellent endorsement of the technology. The Company is focusing its resources on the Clever Buoy deployments in California to ensure the project's success.

Visual Technology | SAMS

In August 2017 the Company announced the global launch of a direct-to-market supply chain for its SAMS visual technology. With water users actively seeking affordable solutions to mitigate the risk of a negative shark interaction, the SAMS visual technology is now commercially available for application to the new and used surf craft of over 28 million surfers, bodyboarders and stand up paddle boarders worldwide.

Marine grade vinyl stickers using Smart Marine System's patented SAMS technology are now available in major retail surf outlets for surfboards, bodyboards and stand up paddle boards. Fibreglass inlays for integration into new watercraft are also available in-store and customers can purchase the SAMS product for incorporation into new surf craft made by their selected manufacturer. The market potential for SAMS technology is significant with over 400,000 surfboards sold globally each year, 6 million body boarders and the fast-growing stand up paddling industry contributing more than 2.8 million participants each year in the US alone (APB, 2017, Outdoor Foundation, 2015)

In December, Smart Marine Systems launched a global online store in which customers can directly purchase the Company's products. This launch was timed with the Summer period in Australia, which is historically the peak period of shark incidents in the Oceania region.

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. 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. Whilst the Company will still own the SAMS technology, in the foreseeable future it will defer further commercialisation activities of the SAMS technology.

2. OPERATING AND FINANCIAL REVIEW (continued)

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.

Commercial production of Seabin's cleaning device has commenced with French manufacturer Poralu Marine. Following the success of the pilot partner program, first commercial sales and installations have commenced in Europe, with the inaugural deployment taking place at the America's Cup Team Headquarters Land Rover BAR facility in Portsmouth, United Kingdom.

In November 2017, Seabin undertook a pre-sales campaign to mark the commencement of commercial production at the Poralu facility. The Company subsequently received in excess of 2,500 pre-sales commitments and is currently working through each of these enquiries.

Financial Results

For the six months ended 31 December 2017, the Group incurred a loss after income tax of \$1,133,122 (six months ended 31 December 2016: loss of \$519,672).

The Group had a net cash outflow of \$537,639 (six months ended 31 December 2016: outflow of \$939,533).

3. DIVIDENDS

The directors recommend that no dividend be provided for the six months ended 31 December 2017. (Six months ended 31 December 2016: Nil).

4. CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability the Directors of Smart Marine Systems Limited support, and have adhered to, the principles of good corporate governance. The Group's corporate governance statement is contained in the 30 June 2017 Annual Report and can be viewed on the Company's website.

5. SUBSEQUENT EVENTS

Other than the matters disclosed in note 5.2 of the notes to the condensed consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the reporting period that have affected or may affect, significantly, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

6. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in the Directors' Report.

Signed in accordance with a resolution of Directors.

On behalf of the Directors,

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

CRAIG ANDERSON
Director

Perth, Western Australia
28 February 2018

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Smart Marine Systems Limited for the half-year ended 31 December 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 review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
28 February 2018




M R Ohm
Partner

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

Level 4 130 Stirling Street Perth WA 6000 | PO Box 8124 Perth BC WA 6849 | Telephone +61 (08) 9227 7500 | Fax +61 (08) 9227 7533

Email: mailbox@hlbwa.com.au | Website: www.hlb.com.au

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	31 December 2017 \$	30 June 2017 \$
Assets			
Cash and cash equivalents		86,588	624,251
Trade and other receivables		58,028	57,823
Inventory		32,471	7,732
Prepayments		18,483	31,869
Other current assets		2,229	-
Current tax assets		396,946	460,518
Total current assets		594,745	1,182,193
Intangible assets	3.1	204,086	301,950
Property, plant and equipment	3.2	459,343	551,150
Investment in associates		3,027	-
Loans to associates		-	16,034
Total non-current assets		666,456	869,134
Total assets		1,261,201	2,051,327
Liabilities			
Trade and other payables		187,002	199,424
Borrowings	4.2	55,790	22,015
Current tax liabilities		-	-
Employee entitlements		82,384	46,839
Total current liabilities		325,176	268,278
Borrowings	4.2	47,775	47,775
Total non-current liabilities		47,775	47,775
Total liabilities		372,951	316,053
Net assets		888,250	1,735,274
Equity			
Issued capital	4.1	5,142,917	5,142,917
Reserves		878,969	592,871
Accumulated losses		(5,133,636)	(4,000,514)
Total equity attributable to equity holders of the Company		888,250	1,735,274

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

		31 December 2017	31 December 2016
	Note	\$	\$
Revenue from continuing operations			
Sales		31,183	183,788
Other income	2.2	31,028	262,498
Share of profit of associate		3,027	-
Total Revenue		65,238	446,286
Expenses			
Cost of sales		(8,960)	-
Other operating expenses		(15,922)	(94,325)
Marketing and business development		(179,400)	(116,344)
Selling and distribution expenses		(6,909)	-
Personnel expenses		(669,431)	(360,003)
General and administration		(85,347)	(79,717)
Professional fees		(169,502)	(100,577)
Depreciation and amortisation		(196,691)	(300,216)
Research and development		(53,031)	(380,908)
Finance expenses		(4,515)	(1,874)
Other losses and (gains)		(5,823)	(11,386)
Results from operating activities		(1,330,293)	(999,064)
(Loss) / profit before income tax		(1,330,293)	(999,064)
Income tax benefit	2.3	197,171	479,392
(Loss) / profit for the period from continuing operations		(1,133,122)	(519,672)
(Loss) / profit for the period		(1,133,122)	(519,672)

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	31 December 2017 \$	31 December 2016 \$
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation difference of foreign operations	(27)	-
Total items that may be reclassified subsequently to profit or loss	(27)	-
Total comprehensive loss for the period	(1,133,149)	(519,672)
Loss attributable to owners of the Company	(1,133,122)	(519,672)
Total comprehensive loss attributable to owners of the Company	(1,133,149)	(519,672)
Loss per share		
Basic and diluted loss per share (cents per share)	(1.69)	(0.94)

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	Attributable to equity holders of the Company				Total
	Share capital	Share-based payments reserve	Foreign currency Translation reserve	Accumulated losses	
	\$	\$	\$	\$	\$
Balance at 1 July 2017	5,142,917	592,871	-	(4,000,514)	1,735,274
Total comprehensive loss for the period	-	-	-	(1,133,122)	(1,133,122)
Other comprehensive income					
Foreign exchange translation difference on foreign operations	-	-	(27)	-	(27)
Total comprehensive expense	-	-	(27)	-	(27)
Total comprehensive loss for the period	-	-	(27)	(1,133,122)	(1,133,149)
Transactions with owners, recorded directly in equity					
<i>Contributions by and distributions to owners</i>					
Share-based payment transaction	-	286,125	-	-	286,125
Total contributions by and distributions to owners	-	286,125	-	-	286,125
Total transactions with owners	-	286,125	-	-	286,125
Balance at 31 December 2017	5,142,917	878,996	(27)	(5,133,636)	888,250

The accompanying notes are an integral part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

	Attributable to equity holders of the Company				Total
	Share capital	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	
	\$	\$	\$	\$	\$
Balance at 1 July 2016	3,936,393	306,500	-	(434,078)	3,808,815
Total comprehensive loss for the period	-	-	-	(519,672)	(519,672)
Transactions with owners, recorded directly in equity					
<i>Contributions by and distributions to owners</i>					
Issue of ordinary shares	25,000	-	-	-	25,000
Capital raising costs	(140)	-	-	-	(140)
Total contributions by and distributions to owners	24,860	-	-	-	24,860
Total transactions with owners	24,860	-	-	-	24,860
Balance at 31 December 2016	3,961,253	306,500	-	(953,750)	3,314,003

The accompanying notes are an integral part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	Note	31 December 2017 \$	31 December 2016 \$
Cash flows from operating activities			
Receipts from customers		58,475	182,621
Cash paid to suppliers and employees		(843,633)	(726,991)
Interest paid		(2,857)	(534)
Interest received		3,509	7,713
Payments for research and development		(53,031)	-
Income taxes paid		260,743	(931)
Net cash (used in) / from operating activities		(576,794)	(538,122)
Cash flows from investing activities			
Payments for capitalised research and development		(1,976)	(95,005)
Payments for plant and equipment		(7,020)	(346,689)
Repayment of loans to associate		16,034	-
Loans to associate		-	(224)
Net cash used in investing activities		7,038	(441,918)
Cash flows from financing activities			
Proceeds from borrowings	4.2	50,000	56,000
Payment of capital raising costs		-	(3,333)
Repayment of premium funding facility		(17,883)	(12,160)
Net cash from financing activities		32,117	40,507
Net (decrease) / increase in cash and cash equivalents		(537,639)	(939,533)
Cash and cash equivalents at 1 July		624,251	2,777,198
Effect of exchange rate fluctuations on cash held		(24)	-
Cash and cash equivalents at 31 December		86,588	1,837,665

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION

The interim consolidated financial statements (the interim financial statements) are general purpose interim financial statements and have been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable accounting standards including AASB 134 *Interim Financial Reporting*, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The interim financial statements comprise the interim financial statements of the Group. For the purposes of preparing the interim financial statements, the Company is a for-profit entity.

The interim financial statements do not include the full disclosures of the type normally included in the full financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report. It is recommended that interim financial statements be read in conjunction with the full financial report for the year ended 30 June 2017 and any public announcements made by Smart Marine Systems Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding half year. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The interim financial statements have been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets.

The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim financial statements, the half-year has been treated as a discrete reporting period.

1.1 Statement of compliance

The interim financial statements were approved by the Board of Directors on 28 February 2018.

The interim financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the interim financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

1.2 Application of new and revised accounting standards

The Group has adopted all the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period and the adoption of these did not have a material impact on the financial statements.

The Directors have also reviewed all Standards and Interpretations in issue not yet adopted for the period ended 31 December 2017. Whilst this review is still in progress, the new standards are not expected to have a material impact on the Group.

1.3 Significant accounting judgements and estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2017.

1.4 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 \$269,569 (2016: surplus of \$2,113,260) and a net cash outflow of \$537,639 (2016: outflow of \$939,533). The Group recorded a loss for the period of \$1,133,122 (2016: loss of \$519,672). The Group had cash and cash equivalents at 31 December 2017 and at 22 February 2018 of \$86,588 and \$547,330 respectively.

The Group is focused on securing contracts and sponsorships in the USA. Congressman Dana Rohrabacher has given the Clever Buoy technology his approval, and he has publicly stated his intention to roll out the Clever Buoy across 6 key beaches in California. If this is successful, further beaches would be equipped with the technology. Congressman Rohrabacher is seeking US\$10 million from the state and federal governments by way of an appropriations grant, to fund the 6 beaches roll out.

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 June 2019 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 Group's 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.

2. RESULTS FOR THE PERIOD

This section focuses on the results and performance of the Group, with disclosures including segment information.

2.1 SEGMENT INFORMATION

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 operating decision maker with respect to operating segments, are determined in accordance with *AASB 8 Operating Segments*. The Seabin investment is not a reportable segment in accordance with the criteria in AASB 8.

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 assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the reporting period:

	Assets		Liabilities	
	31 Dec 2017 \$	30 Jun 2017 \$	31 Dec 2017 \$	30 Jun 2017 \$
SAMS visual technology	93,062	63,605	(2,893)	(704)
Clever Buoy shark detection technology	623,733	813,192	(69,207)	(54,514)
Total segment assets and liabilities	716,795	876,797	(72,100)	(55,218)
Investment in associates	3,027	-	-	-
Loans to associates	-	16,034	-	-
Corporate and other segment assets/liabilities	541,379	1,158,496	(300,851)	(260,835)
Total	1,261,201	2,051,327	(372,951)	(316,053)

2.1 SEGMENT INFORMATION (continued)

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 profit/(loss)	
	31 Dec 2017 \$	31 Dec 2016 \$	31 Dec 2017 \$	31 Dec 2016 \$
SAMS visual deterrent technology	31,183	76,908	(175,661)	(152,230)
Clever Buoy shark detection technology	-	106,880	(240,173)	(410,840)
Total for continuing operations	31,183	183,788	(415,834)	(563,070)
Share of profits of associate			3,027	-
Finance income			2,834	12,498
Central and administration expenses			(915,805)	(446,618)
Finance expense			(4,515)	(1,874)
(Loss) / profit before tax			(1,330,293)	(999,064)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2017.

2.2 OTHER REVENUE

	31 December 2017 \$	31 December 2016 \$
Government grants	-	250,000
Finance income	2,834	12,498
Insurance claim	28,194	-
	31,028	262,498

2.3 INCOME TAX EXPENSE

(a) Amounts recognised in profit or loss

	31 December 2017 \$	31 December 2016 \$
Current tax benefit		
Current tax	23,069	175,090
Deferred tax	-	304,302
Over-provision in prior year	174,102	-
Total income tax benefit	197,171	479,392

(b) Reconciliation of effective tax rate

	31 December 2017 \$	31 December 2016 \$
Loss for the period / year	(1,133,122)	(519,672)
Total income tax benefit	(197,171)	(479,392)
Loss excluding income tax	(1,330,293)	(999,064)
Income tax at the Australian tax rate of 27.5% (2016: 28.5%)	(365,831)	(284,733)
<i>Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:</i>		
Entertainment	816	683
Share-based payments	78,684	-
Research and development benefit	(8,485)	(64,200)
Share of loss of associate	(832)	-
Difference in foreign income tax rates	(392)	-
Other permanent differences	1,829	-
Under / (over) provision in prior years	(174,102)	(131,142)
Deferred tax assets not brought to account	271,142	-
	(197,171)	(479,392)

2.3 INCOME TAX EXPENSE (continued)

(c) Recognised deferred tax assets and liabilities

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

	31 December 2017 \$	30 June 2017 \$
Deferred tax liabilities (DTLs)		
Receivables	-	2,422
Prepayments	5,083	8,764
Research and development	43,217	138,512
Other temporary differences	609	-
	48,909	149,698
Off-set of deferred tax assets	(48,909)	(149,698)
Net deferred tax liability recognised	-	-
Deferred tax assets (DTAs)		
Other temporary differences	-	-

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 31 December 2017.

3.1 INTANGIBLE ASSETS

	SAMS Patents \$	SAMS Trademarks \$	SAMS Development \$	Clever Buoy Patents \$	Clever Buoy Trademarks \$	Clever Buoy Development \$	Formation Costs \$	Total \$
Gross carrying amount								
Balance at 1 July 2016	51,288	6,250	263,735	7,870	850	807,251	1,253	1,138,497
Additions	11,234	1,900	-	2,030	-	-	-	15,164
Impairment	(62,522)	(8,150)	(263,735)	-	-	-	-	(334,407)
Balance at 30 June 2017	-	-	-	9,900	850	807,251	1,253	819,254
Additions	1,765	650	-	-	-	-	-	2,415
Impairment	(1,765)	(650)	-	-	-	-	-	(2,415)
Balance at 31 December 2017	-	-	-	9,900	850	807,251	1,253	819,254
Amortisation								
Balance at 1 July 2016	2,665	-	-	-	-	-	1,003	3,668
Amortisation for the period	176	-	75,353	-	-	516,051	250	591,830
Impairment	(2,841)	-	(75,353)	-	-	-	-	(78,194)
Balance at 30 June 2017	-	-	-	-	-	516,051	1,253	517,304
Amortisation for the period	-	-	-	-	-	97,864	-	97,864
Balance at 31 December 2017	-	-	-	-	-	613,915	1,253	615,168
Carrying amounts								
Balance at 30 June 2017	-	-	-	9,900	850	291,200	-	301,950
Balance at 31 December 2017	-	-	-	9,900	850	193,336	-	204,086

3.2 PROPERTY, PLANT AND EQUIPMENT

	Plant & equipment	Fixtures & fittings	Computer equipment	Motor vehicles	Software	Leasehold improvements	Construction In progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Gross carrying amount								
Balance at 1 July 2016	-	-	-	-	684	-	-	684
Additions	439,292	37,545	12,708	102,909	104,714	5,951	6,554	709,673
Balance at 30 June 2017	439,292	37,545	12,708	102,909	105,398	5,951	6,554	710,357
Additions	570	-	770	-	-	4,780	900	7,020
Disposals	(569)	-	-	-	-	-	-	(569)
Transfers between categories	-	-	-	-	7,454	-	(7,454)	-
Balance at 31 December 2017	439,293	37,545	13,478	102,909	112,852	10,731	-	716,808
Depreciation								
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
Balance at 1 July 2017	109,583	4,191	12,708	8,336	18,438	5,951	-	159,207
Depreciation for the period	66,164	1,750	-	7,132	21,371	2,410	-	98,827
Disposals	(569)	-	-	-	-	-	-	(569)
Balance at 31 December 2017	175,178	5,941	12,708	17,468	39,809	8,361	-	257,465
Carrying amounts								
Balance at 30 June 2017	329,709	33,354	-	94,573	86,960	-	6,554	551,150
Balance at 31 December 2017	264,115	31,604	770	87,441	73,043	2,370	-	459,343

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.

SECTION 4 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.

4.1 CAPITAL AND RESERVES

Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	31 December 2017	30 June 2017	31 December 2017	30 June 2017
On issue at 1 July	66,889,253	54,915,113	5,142,917	3,936,393
<i>Shares issued and expensed during the period:</i>				
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)
On issue at 31 December	66,889,253	66,889,253	5,142,917	5,142,917

Options

At the date of this report the Company has a total of 18,525,000 unissued ordinary shares under option with varying exercise prices and expiry dates. The key valuation assumptions made at valuation date are summarised below:

	Tranche						
	1	2	3	4	5	6	7
Number of options	5,000,000	125,000	2,000,000	4,000,000	1,000,000	400,000	6,000,000
Exercise price (cents)	25	25	20	25	30	5	10
Grant date	12-May-16	31-May-16	7-Feb-17	7-Feb-17	7-Feb-17	1-Jun-17	23-Nov-17
Expiry date	30-Jun-19	30-Jun-19	31-Jan-20	31-Jan-	31-Jan-	1-Jun-20	31-Dec-20
Life of options (years)	3.13	3.08	2.98	2.98	2.98	3.00	3.11
Risk free rate	2.00%	1.83%	1.81%	1.81%	1.81%	1.66%	1.90%
Volatility	50%	93%	90%	90%	90%	113.97%	85%

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

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

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

4.2 BORROWINGS

As at 31 December 2017, the contractual terms of the Group's interest-bearing loans and borrowings were as follows

	31 December 2017 \$	30 June 2017 \$
<i>Unsecured</i>		
Other borrowings	51,907	54,513
Related party loans	51,658	-
Premium funding facility	-	15,277
	103,565	69,790
Current	55,790	22,015
Non-current	47,775	47,775
	103,565	69,790
Other borrowings		
Opening balance	54,513	-
Loans advanced	-	56,000
Interest expense	1,779	2,436
Transaction costs	-	1,340
Less repaid	(4,385)	(5,263)
	51,907	54,513
Related party loans		
Opening balance	-	-
Loans advanced	50,000	-
Interest expense	1,658	-
	51,658	-
Premium Funding Facility		
Opening balance	15,277	12,161
Premium funding facility	-	25,410
Interest expense	1,078	1,304
Less repaid	(16,355)	(23,598)
	-	15,277

A short-term loan totalling \$50,000 was obtained from Broadway Management (WA) Pty Ltd, a company associated with David McArthur. The loan bore interest at 10% p.a. for the period of the loan. The loan was deemed to be on normal commercial terms and conditions.

4.3 FINANCIAL INSTRUMENTS

As at 31 December 2017, the contractual maturities of the Group's financial liabilities were as follows:

	Carrying amount \$	Contractual cash flows \$	12 months or less \$	More than one year \$
31 December 2017				
Non-derivative financial liabilities				
Trade and other payables	216,326	218,003	218,003	-
Interest bearing liabilities	103,565	120,734	78,537	42,197
	319,891	338,737	296,540	42,197
30 June 2017				
Non-derivative financial liabilities				
Trade and other payables	201,703	203,514	203,514	-
Interest bearing liabilities	69,790	69,077	26,880	42,197
	271,493	272,591	230,394	42,197

The methods and valuation techniques used for the purposes of measuring fair values are unchanged compared to the previous reporting period.

The carrying amounts of financial assets and liabilities are considered to be a reasonable approximation of their fair values.

SECTION 5 OTHER DISCLOSURES

The disclosures in this section focus on share schemes in operation, financial risk management of the Group and other mandatory disclosures, such as details of related party transactions, where applicable.

5.1 Subsidiaries

During the reporting period, the Company established the following subsidiaries:

Name of entity	Date
Clever Buoy (Aust) Pty Ltd	30 August 2017
Clever Buoy (USA) LLC	15 December 2017

5.2. Subsequent Events

On 17 January 2018, the Company received an R&D grant refund of \$373,878 for the 2017 financial year. This was included in Current Tax Assets at balance date.

On 9 February 2018, the Company announced the placement of 20,000,000 fully paid ordinary shares at 3 cents each to raise \$600,000 in working capital. One option, exercisable at 8 cents by 28 February 2021, will be issued for every four shares applied for (being a total of 5,000,000 options).

On 15 February 2018, 12,000,000 shares with 3,000,000 free-attaching options were issued to immediately raise \$360,000. The balance of 8,000,000 shares and 2,000,000 options to raise the balance of \$240,000, is subject to shareholder approval.

On 26 February 2018, the Company announced a Share Purchase Plan (SPP), at a price of 3 cents per share. The SPP raising will be capped at \$500,000, with applications greater than \$500,000, scaled back on a pro-rata basis.

Other than as disclosed above, no other matters or circumstances have arisen since the end of the reporting period and the date of this report which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Smart Marine Systems Limited (the 'Company'):
 - (a) the accompanying interim financial statements and notes are in accordance with the *Corporations Act 2001* including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year then ended; and
 - (ii) complying with Australian Accounting standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements.
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - (c) the interim financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 303(5) of the *Corporations Act 2001* for the half-year ended 31 December 2017.

This declaration is signed in accordance with a resolution of the board of Directors.



CRAIG ANDERSON
Director

Dated this 28th day of February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Smart Marine Systems Limited

Report on the Condensed Half-Year Financial Report*Conclusion*

We have reviewed the accompanying half-year financial report of Smart Marine Systems Limited ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Smart Marine Systems Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1.4 in the half-year financial report, which indicates the existence of a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001*

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

Level 4 130 Stirling Street Perth WA 6000 | PO Box 8124 Perth BC WA 6849 | Telephone +61 (08) 9227 7500 | Fax +61 (08) 9227 7533

Email: mailbox@hlbwa.com.au | Website: www.hlb.com.au

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including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
28 February 2018



M R Ohm
Partner