

Announcement to ASX

18 October 2018

Dispatch of 2018 Annual Report and Notice of AGM

Smart Marine Systems Limited (ASX: SM8) is please to attach a copy of the 2018 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form which have been dispatch to shareholders.

A copy of the Annual Report and Notice of Annual General Meeting will also be available on our website www.sharkmitigation.com.

On behalf of the Board

David McArthur
Director

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SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting

22 November 2018

Time of Meeting

10:00 am (AWST)

Place of Meeting

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

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of Smart Marine Systems Limited ("**Company**") will be held at 10:00 am (AWST) on 22 November 2018, at Level 1, 31 Cliff Street, Fremantle, Western Australia.

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 5:00pm (AWST) on 20 November 2018.

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 2018 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 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 2018."

Note 1: The vote on this resolution is advisory only and does not bind the Directors or 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 2017 Annual General Meeting.

Voting Prohibition Statement:

A vote on this Resolution 1 must not be cast (in any capacity) by or on behalf of either 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.

However, a person (**the** voter) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on this Resolution; or
- (d) the 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 though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

Ordinary Resolution 2: Re-election of Director – Hamish Jolly

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

“That Mr Hamish Jolly, 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 the following Resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and issue of 11,666,667 fully paid ordinary shares and 840,000 February 28, 2021 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 in favour of Resolution 3 by or on behalf of any persons who participated in the issue or 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 on 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.

Ordinary Resolution 4: Ratification of Issue of Shares - Placement

To consider and, if thought fit, to pass the following Resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and issue of 9,000,000 fully paid ordinary shares on the terms set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion Statement: The Company will disregard any votes cast in favour of Resolution 4 by or on behalf of 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 on 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.

Ordinary Resolution 5: Approval of Issue of Shares and Options - Placement

To consider and, if thought fit, to pass the following Resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given to issue up 11,000,000 fully paid ordinary shares and 6,666,667 30 November 2020 options exercisable at 3 cents to clients of Canary Capital Pty Ltd on the terms set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion Statement: The Company will disregard any votes cast in favour of Resolution 5 by or on behalf of any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if this Resolution 5 is passed and any associates of those persons. 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.

Ordinary Resolution 6: Approval of Issue of Options to General Manager - Operations

To consider and, if thought fit, to pass the following Resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 3,000,000 Options as an incentive for operational performance to the General Manager of Operations for Clever Buoy LLC, on the terms set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion Statement: The Company will disregard any votes cast in favour of Resolution 6 by or on behalf of any person who may participate in the proposed issue 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 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.

Ordinary Resolution 7: Approval of Issue Shares – Marketing Services Agreement

To consider and, if thought fit, to pass the following Resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 1,200,000 fully paid ordinary shares on the terms set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion Statement: The Company will disregard any votes cast in favour of Resolution 7 by or on behalf of any person who may participate in the proposed issue 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 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.

Special Resolution 8: Approval of 10% Placement Capacity

To consider and, if thought fit, to pass 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 Company to issue up to the number of Equity Securities equal 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 otherwise on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast in favour of Resolution 8 by or on behalf of any person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person (or 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.

By Order of the Board



D M McARTHUR
Company Secretary

Dated: 9 October 2018

ENTITLEMENT TO ATTEND AND VOTE

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 pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 5:00pm (AWST) on 20 November 2018 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.

Shareholders and their proxies should be aware that changes to the *Corporations Act 2001* (Cth) made in 2011 mean that:

- (a) if proxy holders vote, they must cast all directed proxies as directed; and
- (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

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.

SMART MARINE 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 2018, together with the declaration of the Directors, the Directors' report, the Remuneration Report and the auditor's report.

A copy of the Company's 2018 Annual Report is available on the Company's ASX platform (ASX: SM8) and on the website 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.

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.

ORDINARY RESOLUTION 2: Re-election of Director - Mr Hamish Jolly

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 Hamish Jolly, has served as a Director since 29 January 2016 and was last re-elected on 16 November 2016, retires by rotation and seeks re-election as a Director.

Information about Mr Jolly is set out in the Company's 2018 Annual Report.

If elected, the board considers Mr Jolly will be an independent Director.

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

ORDINARY RESOLUTION 3: Ratification of Prior Issue of Shares and Options – Capital Raising

On 24 April 2018, the Company announced it had issued 11,666,667 fully paid ordinary shares at a price of \$0.03 per Share to sophisticated investors. 840,000 unlisted options exercisable at 8 cents each on or before 28 February 2021 were also issued (**Capital Raising**).

ASX Listing Rule 7.1 provides that the Company must not issue or agree to issue, subject to specified exceptions, more equity securities during any 12-month period than an amount which, when aggregated with the number of other securities issued within that 12-month period, represents 15% of the number of ordinary shares on issue at the commencement 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.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in a general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

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 this Resolution 3:

- (a) the total number of Shares issued by the Company was 11,666,667;
 - (b) the issue price was \$0.03 per Share;
 - (c) the Shares issued 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;
 - (d) the total number of Options issued by the Company was 840,000;
 - (e) the Options are exercisable at 8 cents on or before 28 February 2021 were issued for no consideration. The Options were issued on the terms and conditions set out in Appendix 1 (pg 21);
 - (f) the Shares and options were issued to sophisticated investors, none of whom are related parties of the Company; and
 - (g) the funds raised under the Capital Raising were used to fund deployment of Clever Buoy operations in USA and for working capital purposes.
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ORDINARY RESOLUTION 4: Ratification of Prior Issue of Shares – Capital Raising

On 27 September 2018, the Company announced it had issued 9,000,000 fully paid ordinary shares at a price of \$0.025 per Share to sophisticated investors (**Capital Raising**).

Resolution 4 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares.

The Placement was made as follows:

Listing Rule 7.1 - 2,500 Shares

Listing Rule 7.1A - 8,997,500 Shares

A summary of ASX Listing Rules 7.1 and 7.4 is set out in Resolution 3.

ASX Listing Rule 7.1A provides that the Company can issue a further 10% of the number of ordinary shares at the beginning of the 12-month period under Listing Rule 7.1.

While the Shares and options described in this Resolution have been issued within the 15% limit of Listing Rule 7.1 and the 10% limit of Listing Rule 7.1A, 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) 9,000,000 Shares were issued;
- (b) the issue price was \$0.025 per Share;

- (c) 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;
 - (d) the Shares were issued to numerous sophisticated investors, none of whom are related parties of the Company; and
 - (e) the funds raised under the Capital Raising will be used to fund activities relating to the Clever Buoy trial in the United States and for working capital purposes.
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ORDINARY RESOLUTION 5: Approval of Issue of Shares and Options – Capital Raising

As announced on 27 September 2018, the Company has entered into an agreement, subject to shareholder approval, to issue 12,000,000 Shares at \$0.025 per share and 6,666,667 November 30, 2020 options exercisable at \$0.03 (**Capital Raising Options**) to raise \$500,000 before costs when combined with the Placement detailed in Resolution 4.

Resolution 5 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for this issuance.

A summary of ASX Listing Rule 7.1 is set out in Resolution 3.

If Shareholders approve Resolution 5, the shares can be issued during a period of 3 months after the Annual General Meeting (or a longer period, if allowed by the ASX) without using the Company's annual 15% placement capacity.

Technical information required by ASX Listing Rule 7.1

In accordance with the requirements of ASX Listing Rule 7.3, the following information is provided to Shareholders to allow them to assess the approval of the issue of the Shares and Capital Raising Options pursuant to the placement agreement, the subject of this Resolution:

- (a) up to 12,000,000 Shares and up to 6,666,667 Options are to be issued under Resolution 5, with one (1) free attaching Option for every three (3) Shares issued between Resolutions 4 and 5 (up to 20,000,000 Shares and 6,666,667 Options);
 - (b) the Shares will be issued for \$0.025 per Share and the issue price of the Options is nil as they are to be issued as free-attaching with the Shares on a one (1) for three (3) basis;
 - (c) the Shares and Options will be issued no later than 3 months after the date of the Annual General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
 - (d) the Shares will rank pari passu with the Company's existing Shares;
 - (e) the 30 November 2020 Options will be exercisable on the terms and conditions set out in Appendix 1 (pg 18);
 - (f) the Shares and Options will be issued to numerous sophisticated investors who are clients of Canary Capital, none of whom are related parties of the Company; and
 - (g) the funds raised under the Capital Raising will be used to fund activities relating to the Clever Buoy trial in the United States and for working capital purposes.
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ORDINARY RESOLUTION 6: Approval of Issue of Options to General Manager - Operations

Resolution 6 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the issue of 3,000,000 Options (**Incentive Options**), issued in three (3) tranches of 1,000,000 options, as an incentive for operational performance efforts to the General Manager of Operations for Clever Buoy LLC.

Tranche one (1) of the Incentive Options will be for 1,000,000 options, exercisable at \$0.05 on or before 29 December 2021. Tranche two (2) of the Incentive Options will be for 1,000,000 options, exercisable at

\$0.08 on or before 30 December 2021. Tranche three (3) of the Incentive Options will be for 1,000,000 options, exercisable at \$0.12 on or before 31 December 2021.

A summary of ASX Listing Rule 7.1 is set out in Resolution 3 above.

If Shareholders approve Resolution 6, the Incentive Options will be issued without using the Company's placement capacity during the 3-month period following the Meeting (or a longer period, if allowed by the ASX).

Technical information required by ASX Listing Rule 7.1

In accordance with the requirements of ASX Listing Rule 7.3, the following information is provided to Shareholders to allow them to assess the approval of the issue of the Incentive Options, the subject of this Resolution 6:

- (a) up to 3,000,000 Incentive Options are to be issued under Resolution 6;
- (b) the Incentive Options will be issued no later than 3 months after the date of the Annual General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (c) the valuation of the Incentive Options issued is set out in Appendix 2 (pg 24-25);
- (d) the issue price of the Incentive Options is nil;
- (e) the Incentive Options will be issued to the General Manager of Operations for Clever Buoy LLC (a subsidiary of Smart Marine Systems Limited). The General Manager is not considered a related party of the Company under section 228 of the Corporations Act 2001;
- (f) the Incentive Options will be exercisable on terms and conditions set out in Appendix 1; and
- (g) no funds will be raised for issue of Incentive Options.

ORDINARY RESOLUTION 7: Approval of the Issue of Shares – Marketing Services Agreement

Resolution 7 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the issue of 1,200,000 fully paid ordinary shares as consideration for marketing services to be provided to the Company by Canary Capital Pty Ltd pursuant to an agreement entered into by the Company and Canary Capital on 27 September 2018 (**Agreement**).

A summary of ASX Listing Rule 7.1 is set out in Resolution 3 above.

The Agreement relates to investor marketing services to be received over a six-month period, commencing upon the issue of the securities set out in Resolution 3. Per the Agreement, Canary Capital will receive a services fee of \$5,000 per month (totalling \$30,000 over six months) to be paid upfront via issuance of 1,200,000 shares (the subject of this Resolution) for marketing and investor services provided.

If Shareholders approve Resolution 7, the Shares will be issued without using the Company's placement capacity during the 3-month period following the Meeting (or a longer period if allowed by the ASX).

Technical information required by ASX Listing Rule 7.1

In accordance with the requirements of ASX Listing Rule 7.3, the following information is provided to Shareholders to allow them to assess the approval of the issue of Shares, the subject of this Resolution 7:

- (a) the total number of Shares to be issued by the Company is 1,200,000;
- (b) the deemed issue price of the Shares is \$0.025 per share;
- (c) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);

- (d) the Shares will be issued for nil cash consideration in satisfaction of services to be provided by Canary Capital in accordance with the Agreement set out in the summary above;
- (e) the Shares will be issued to Canary Capital Pty Ltd who is not a related party of the Company;
- (f) the Shares will rank pari passu with the Company's existing Shares;
- (g) no funds will be raised from the issue as the Shares are being issued as consideration for marketing and investor services provided to the Company by Canary Capital in accordance with the Agreement detailed above.

SPECIAL RESOLUTION 8: Approval of 10% Placement Capacity – Shares

General

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval by special resolution passed at its annual general meeting to allow it to issue up to the number of Equity Securities equal to 10% of its issued capital (**10% Placement Capacity**) without using the Company's existing 15% annual placement capacity granted under ASX Listing Rule 7.1.

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 \$2,772,140 (based on the number of Shares on issue and the closing price of Shares on the ASX on 9 October 2018).

An Equity Security is a share, a unit in a trust, a right to a share or unit in a trust or option, an option over an issued or unissued security, a convertible security, or, any security that ASX decides to classify as an equity security.

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: SM8).

If Shareholders approve Resolution 8, 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.

Resolution 8 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 8 for it to be passed.

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 8:

- (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) (after which date, an approval under Listing Rule 7.1A ceases to be valid).

(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 8 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 on the follow page 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"		<u>DILUTION</u>		
		\$0.012 50% decrease in Issue Price	\$0.024 Issue Price	\$0.048 100% increase in Issue Price
Current Variable A	10% Voting Dilution			
115,505,829 shares		11,550,583 Shares	11,550,583 Shares	11,550,583 Shares
	Funds Raised	\$ 138,607	\$ 277,214	\$ 554,428
50% Increase in Current Variable A	10% Voting Dilution			
173,258,744 shares		17,325,874 Shares	17,325,874 Shares	17,325,874 Shares
	Funds Raised	\$ 207,911	\$ 415,821	\$ 831,642
100% Increase in Current Variable A	10% Voting Dilution			
231,011,658 Shares		23,101,166 Shares	23,101,166 Shares	23,101,166 Shares
	Funds Raised	\$ 277,214	\$ 554,428	\$ 1,108,856

Note: 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 on the previous page uses the following assumptions:

- (a) There are currently 115,505,829 Shares on issue as at 9 October 2018.
- (b) The issue of Equity Securities under the 10 Placement Capacity consists only of Shares. It is assumed that no options are exercised into Shares before the date of issue of the Equity Securities. If the issue of Equity Securities includes quoted Options, it is assumed that those quoted Options are exercised into Shares for the purpose of calculating the voting dilution effect on existing Shareholders.
- (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 9 October 2018.
- (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) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Capacity, based on that Shareholder's holding at the date of the Meeting.
- (i) 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 23 November 2017. The Company has issued 14,997,500 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 36,950,009 ordinary shares and 14,840,000 options have been issued representing 53.33% of the securities on issue at the commencement of the 12-month period preceding the date of the Annual General Meeting (being 97,112,863 securities).

Date	Quantity	Class	Recipients	Issue price / valuation and discount to Market Price (if applicable) ¹	Form of consideration
Issue – 11/12/2017 Appendix 3B – 11/12/2017	6,000,000	Unquoted Director Options ²	Craig Anderson Hamish Jolly	\$0.0213 valuation per Option on issue date (nil consideration) Total = \$127,800	Non-cash consideration: incentive remuneration for Directors. Current value ³ = \$33,186 (appendix 2)
Issue – 15/02/2018 Appendix 3B – 15/02/2018	12,000,000 3,000,000	Shares ⁴ Unquoted Placement Options ⁵	Sophisticated investors	\$0.03 per Share (34.78% discount to market) Free-attaching option – nil value	Cash Amount raised = \$360,000 Amount spent = \$360,000 Use of funds: Deployment of Clever Buoy in Newport, USA and for working capital. Amount remaining = \$Nil
Issue – 27/03/2018 Appendix 3B – 27/03/2018	4,750,009	Shares ⁴	Various existing shareholders	\$0.03 per Share (10.80% discount to market)	Cash Amount raised = \$142,500 Amount spent = \$142,500 Use of funds: Deployment of Clever Buoy in Newport, USA and for working capital. Amount remaining = \$Nil
Issue – 24/04/2018 Appendix 3B – 24/04/2018	11,200,000 2,840,000	Shares ⁴ Unquoted Placement Options ⁵	Sophisticated investors	\$0.03 per Share (21.05% discount to Market) Free-attaching option – nil value	Cash Amount raised = \$336,000 Amount spent = \$316,580 Use of funds: Deployment of Clever Buoy in Newport, USA and for working capital. Amount remaining = \$19,420 Proposed use of remaining funds ⁷ : Deployment of Clever Buoy in Newport, USA and for working capital.
Issue – 24/04/2018 Appendix 3B – 24/04/2018	2,000,000	Unquoted Director Options ²	David McArthur	\$0.0109 valuation per Option on issue date (nil consideration) Total = \$21,738	Non-cash consideration: incentive remuneration for Director. Current value ³ = \$11,062 (appendix 2)
Issue – 24/04/2018	1,000,000	Unquoted Incentive Options ⁶	Canary Capital Pty Ltd	\$0.01578 valuation per	Non-cash consideration: market

Appendix 3B – 24/04/2018				Option on issue date (nil cash consideration) Total = \$15,775	services provided for 6 months. Current value ³ = \$8,966 (appendix 2)
Issue – 09/10/2018 Appendix 3B – 09/10/2018	9,000,000	Shares ⁴	Sophisticated investors	\$0.025 per Share (4.12% premium to Market)	Cash Amount raised = \$235,000 Amount spent = \$Nil Amount remaining = \$235,000 Proposed use of remaining funds ⁷ : Deployment of Clever Buoy in Newport, USA and for working capital.

Notes:

1. Market Price means the closing price on the ASX (excluding special crossings, overnight sales and exchange traded option exercises). For the purposes of this table the discount is calculated on the Market Price on the last trading day on which a sale was recorded prior to the date of issue of the relevant Equity Securities.
2. Unquoted Director Options, exercisable at \$0.10 each, on or before 31 December 2020. The full terms and conditions are set out in Appendix 1.
3. In respected of unquoted Equity Securities, the value of Options is measured using the Black & Scholes options pricing model. Measurement inputs include the Share price on the measurement date, the exercise price, the term of the Option, the impact of dilution, the expected volatility of the underlying Share (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the expected dividend yield and the risk-free interest rate for the term of the Option. No account is taken of any performance conditions included in the terms of the Option other than market-based performance conditions (i.e. conditions linked to the price of Shares).
4. Fully paid ordinary shares in the capital of the Company, ASX Code: SM8 (terms are set out in the Constitution).
5. Unquoted Placement Options, exercisable at \$0.08 each, on or before 28 February 2021. The full terms and conditions are set out in Appendix 1.
6. Unquoted Incentive Options, exercisable at \$0.05 each, on or before 8 February 2021. The full terms and conditions are set out in Appendix 1.
7. This is a statement of current intentions as at the date of this Notice. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way the funds are applied on this basis.

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 8.

GLOSSARY

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 Smart Marine 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.

AWST means Australian Western Standard Time (Perth, Western Australia).

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 1

30 NOVEMBER 2020 CAPITAL RAISING OPTION TERMS

- (a) The Options will be unlisted.
- (b) The Options are exercisable at \$0.03 each at any time on or before 30 November 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.

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 1 (cont'd)

31 DECEMBER 2020 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.

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 1 (cont'd)

8 FEBRUARY 2021 INCENTIVE OPTION TERMS

- (a) The Options will be unlisted.
- (b) The Options are exercisable at \$0.05 each at any time on or before 8 February 2021 ("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.

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 1 (cont'd)

28 FEBRUARY 2021 PLACEMENT OPTION TERMS

- (a) The Options will be unlisted.
- (b) The Options are exercisable at \$0.08 each at any time on or before 28 February 2021 ("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.

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 1 (cont'd)

NOVEMBER 2021 INCENTIVE OPTION TERMS (GENERAL MANAGER RECEIPT)

- (a) The Options will be unlisted.
- (b) 1,000,000 Options are exercisable at \$0.05 each at any time on or before 28 November 2021 ("Expiry Date"). 1,000,000 Options are exercisable at \$0.08 each on or before 29 November 2021, with a vesting date of 29 November 2019. 1,000,000 Options are exercisable at \$0.12 each on or before 30 November 2021, with a vesting date of 30 November 2020.
- (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.

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 2

Valuation of 8 February 2021 Marketing Options (Canary Capital) at date of notice of meeting

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

Assumptions:

Value date:	9 October 2018
Share price:	\$0.024
Exercise price:	\$0.05
Term:	28 months
Volatility:	1.0458%
Risk free interest rate:	2.00%
Indicative value per Option:	\$0.009

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 valuation model and based on the assumptions as set out in the table below, with the Director Options ascribed a value as follows:

Assumptions:

Value date:	9 October 2018
Share price:	\$0.024
Exercise price:	\$0.10
Remaining Term:	27 months
Volatility:	1.0458%
Risk free interest rate:	2.00%
Indicative value per Option:	\$0.0055

SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 2 (Cont'd)

Valuation of 28 November 2021 (Tranche 1) Incentive Options (General Manager) at date of notice of meeting

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

Assumptions:

Value date:	9 October 2018
Share price:	\$0.024
Exercise price:	\$0.05
Remaining Term:	38 months
Volatility:	1.0458%
Risk free interest rate:	2.00%
Indicative value per Option:	\$0.0111 (\$11,080)

Valuation of 29 November 2021 (Tranche 2) Incentive Options (General Manager) at date of notice of meeting

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

Assumptions:

Value date:	9 October 2018
Share price:	\$0.024
Exercise price:	\$0.08
Remaining Term:	38 months
Volatility:	1.0458%
Risk free interest rate:	2.00%
Indicative value per Option:	\$0.0091 (\$9,088)

SMART MARINE SYSTEMS LIMITED

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APPENDIX 2 (Cont'd)

Valuation of 30 November 2021 (Tranche 3) Incentive Options (General Manager) at date of notice of meeting

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

Assumptions:

Value date:	9 October 2018
Share price:	\$0.024
Exercise price:	\$0.12
Remaining Term:	38 months
Volatility:	1.0458%
Risk free interest rate:	2.00%
Indicative value per Option:	\$0.0074 (\$7,416)

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 Smart Marine Systems Limited to be held on 22 November 2018 commencing at 10.00 am (AWST) 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 Smart Marine 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
SMART MARINE SYSTEMS LIMITED
ABN 77 149 970 445
ANNUAL GENERAL MEETING

I/We

Address

being a Member of Smart Marine 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 (AWST) on 22 November 2018 at Level 1, 31 Cliff Street, Fremantle, Western Australia, and at any adjournment of that meeting.

Where I/we have appointed the chair as my/our proxy (or where the Chair becomes my/our proxy by default), I/we expressly authorise the Chair to exercise my/our proxy on Resolutions 1, 5, 6 and 7 (except where I/we have indicated a different voting intention below) even though Resolutions 1, 5, 6 and 7 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel, which includes the Chair.

The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote. In exception circumstances the Chair may change his/her voting intention on any Resolution. In the event this occurs, an ASX announcement will be made immediately disclosing the reasons for the change.

Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Ordinary Resolution 1: Adoption of Remuneration Report	☐	☐	☐
Ordinary Resolution 2: Re-election of Director – Hamish Jolly	☐	☐	☐
Ordinary Resolution 3: Ratification of Issue of Shares and Options	☐	☐	☐
Ordinary Resolution 4: Ratification of Issue of Shares	☐	☐	☐
Ordinary Resolution 5: Approval of Issue of Shares and Options	☐	☐	☐
Ordinary Resolution 6: Approval of Issue of Options	☐	☐	☐
Ordinary Resolution 7: Approval of Issue of Shares	☐	☐	☐
Special Resolution 8: Approval of 10% Placement Capacity	☐	☐	☐

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	Member 2	Member 3
Sole Director/Company Secretary	Director	Director/Company Secretary

Contact Name: _____ Contact Ph (daytime): _____ Date: _____

Instructions for completing Proxy Form

1. **(Appointing a proxy):** A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.
2. **(Direction to vote):** A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing instructions):**
 - **(Individual):** Where the holding is in one name, the Shareholder must sign.
 - **(Joint holding):** Where the holding is in more than one name, all of the Shareholders should sign.
 - **(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 Proxy Form when you return it.
 - **(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. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - In person to Level 1, 31 Cliff Street, Fremantle, Perth, WA;
 - By mail to PO Box 584, Fremantle, WA, 6959;
 - By Facsimile to +61 8 6444 7408;
 - By scan and email to jordan.mcarthur@broadwaymgt.com.au,

so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy Forms received later than this time will be invalid.



SHARK MITIGATION SYSTEMS

SMART MARINE SYSTEMS LIMITED

(formerly Shark Mitigation Systems Limited)

ABN 77 149 970 445

ANNUAL REPORT

For the year ended 30 June 2018

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SMART MARINE SYSTEMS LIMITED

CORPORATE INFORMATION

CORPORATE INFORMATION

Directors

Craig Anderson
Hamish Jolly
David McArthur

Secretary

David McArthur
Jordan McArthur

Registered and Principal Office

Level 1, 31 Cliff Street
Fremantle WA 6160

Website: www.sharkmitigation.com

Email: 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

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2018

DIRECTORS' REPORT

The Directors present their report together with the financial statements of Smart Marine Systems Limited and the entities it controlled for the financial year ended 30 June 2018. To comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

The names of Directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Name and status	Experience, qualifications, special responsibilities and other directorships
Hamish Jolly Non-executive Director <u>Interests:</u> Shares: 17,094,279 Options: 2,000,000 Performance Shares: 7,788,446	Hamish is an ocean swimmer and specialist in industry-led marine science innovation, R&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. 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 former 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. His 2014 TED Talk (Ideas Worth Sharing) on SAMSTTM shark visual systems research and commercialisation is in a top-10 list at TED.com with over 2.2 million views. Hamish is Chair of the Nominations and Remuneration Committee and is a member of the Audit and Risk Management Committee.
Craig Anderson Managing Director <u>Interests:</u> Shares: 17,240,259 Options: 4,000,000 Performance Shares: 7,788,446	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. 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. Craig has a strong background in commercialising innovative 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.

SMART MARINE SYSTEMS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2018

DIRECTORS (continued)

Name and status	Experience, qualifications, special responsibilities and other directorships
David McArthur Independent Non-executive Director and Company Secretary <u>Interests:</u> Shares: 170,000 Options: 2,000,000	David is a Chartered Accountant, having spent four years with a major international accounting firm, and has 33 years' experience in the accounting profession. He has been actively involved in the financial and corporate management of many public listed companies over the past 30 years. 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. 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. David was Non-executive Director of Sacgasco Limited from 15 November 2016 until 1 February 2017, and a Non-executive Director of Renewable Heat & Power Limited from 14 August 2013 until 2 February 2017. David is Chair of the Audit and Risk Management Committee and is a member of the Nominations and Remuneration Committee.

COMPANY SECRETARY

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

Jordan McArthur was appointed to the position of Joint Company Secretary on 17 April 2018. Mr McArthur is a Chartered Accountant with eight years corporate and financial experience gained in Australia and the United Kingdom.

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the year were the design and development of shark mitigation and ocean technology.

There have been no other significant changes in the nature of those activities during the year.

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2018

REVIEW OF OPERATIONS

Group Overview

Smart Marine Systems Limited (formerly known as 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. The Company's product portfolio includes three key areas of activity:

- **Clever Buoy™** – a marine monitoring platform and warning system
- **SAMS™** - a visual technology applied to wetsuits and water sports products
- **Seabin™** – a device that catches floating rubbish and makes oceans cleaner

The company has continued to increase its global footprint with Clever Buoy and SAMS making inroads into the US market and Seabin commencing commercial production and sales in Europe.

Highlights

Smart Marine Systems | Name Change

Effective from the 13th December 2017, the Company changed its name from Shark Mitigation Systems Limited to Smart Marine Systems Limited. The name change more appropriately reflects the diversity and nature of the current assets of the Company and the opportunities that the marine sector presents.

Marine Monitoring and Alerting Technology | Clever Buoy

The Company continues to receive significant global interest in its Clever Buoy system as the incidence of shark interactions around the globe increase.

United States Federal Congressman Dana Rohrabacher and Newport City Mayor Kevin Muldoon held a press conference in September 2017 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 pilot program for further installations of Clever Buoy systems in Orange County, California. This announcement was made at the initial 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 over the past decade. 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 3,300 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 several 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. Strong interest has been received from government and private organisations in Florida and the north-east states of America which have experienced the highest incidence of fatal shark attacks in the world in recent years.

The Company is preparing for the first deployment in the USA at Balboa Pier in Newport, California and has successfully obtained the requisite approvals from local and state government statutory authorities. This included a rigorous environmental review process required by the Californian Coastal Commission. This State Government department is responsible for overseeing all approvals and permitting of activities associated with waterways and coastlines in California and is recognised as a benchmark for all the US States. The pilot installation of the Company's shark detection system commencing in August 2018, underpins a formal demonstration of the technology as a precursor for further expansion in Orange County and the United States of America.

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2018

REVIEW OF OPERATIONS (continued)

Marine Monitoring and Alerting Technology | Clever Buoy (continued)

The Newport deployment will be used to demonstrate:

- The installation of a fully integrated Clever Buoy system at one of the highest profile beaches in Southern California;
- Utilization of the latest versions of the Sharktec software with greatly improved accuracy and functionality;
- Integration of localized meteorological data into data feeds;
- Updated versions of Mobile Application with enhanced beach information including localized weather, temperature and wind data that will beta tested for consumer applications;
- Alerts and information will be integrated into Newport Beach Lifeguard protocols;
- Cooperation and integration with current network of acoustic tag receivers and shark verification systems with various agencies in US.

During the year, Western Australia highlighted the detrimental effects of increased shark activity and the impact this is having on local communities, major events and tourism is significant. The Company partnered with Triathlon WA to provide increased event surveillance with Clever Buoy at the Busselton 70.3 Ironman Series on the 5th and 6th May 2018. This same event was disrupted in 2017 by a shark occurrence and subsequently resulted in a significant reduction in entrants for this year's event, which attracts competitors from around the world. The presence of increased shark mitigation measures with Clever Buoy provides increased confidence for competitors to travel and participate in these high-profile international events.

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. Recent shark attacks in Australia, Hawaii, Egypt and Brazil has resulted in several enquiries and proposals being undertaken. A number of these enquiries have come from local business and tourism operators who have witnessed the impact that shark attacks have on their operations.

Visual Technology | SAMS

The company commenced a direct-to-market supply chain for its SAMS visual technology in August 2017. With water users actively seeking affordable solutions to mitigate the risk of a negative shark interaction, the SAMS visual technology is 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 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).

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.

SMART MARINE SYSTEMS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2018

REVIEW OF OPERATIONS (continued)

The Seabin Project (continued)

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 commenced in Europe, with the inaugural deployment taking place at the America's Cup Team Headquarters Land Rover BAR facility in Portsmouth, United Kingdom.

Seabin undertook a pre-sales campaign in November 2017 to mark the commencement of commercial production at the Poralu facility. The Company subsequently received more than 2,500 pre-sales commitments and the first commercial installations of Seabins commenced in earnest in April 2018. During the period Seabins were delivered and successfully installed across multiple locations in Europe, with more than 120 units now operating across a wide range of marinas.

Seabin is currently working with the manufacturing and distribution partner, Poralu Marine, to build production capacity to cater for the significant demand and orders received from a pre-sales campaign.

Seabin continues to increase its global footprint with installations in Spain, Bermuda, Nova Scotia, France, Montenegro, Finland, California, United Kingdom, Singapore, United States and Australia.

Review of Operating Results and Financial Conditions

Revenue for financial year 2018 was \$143,092 (2017: \$671,027). The loss for the financial year ended 30 June 2018 attributable to members of Smart Marine Systems Limited after income tax was \$2,238,553 (2017: loss of \$3,566,436).

The Group has a working capital surplus of \$493,046 at 30 June 2018 (2017: \$913,915) and had net cash outflows of \$158,198 (2017: net cash outflow of \$2,152,947).

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

Five years Group Performance Summary and Shareholder returns

	2018	2017	2016	2015	2014
Revenue from ordinary activities	143,092	671,027	684,365	184,128	n/a
(Loss) / profit before income tax	(2,527,886)	(4,098,161)	(761,262)	141,999	n/a
Net (loss) / profit attributable to equity holders (\$)	(2,238,553)	(3,566,436)	(724,129)	113,325	n/a
Share price at year end (cents)	2.50	7.40	22.50	n/a	n/a
Number of listed ordinary shares	106,505,829	66,889,153	54,915,013	n/a	n/a
Number of unlisted ordinary shares	100	100	100	100	n/a
Weighted average number of shares	76,869,895	60,186,855	34,479,116	100	n/a
Basic loss per share EPS (cents)	(2.91)	(5.93)	(2.10)	n/a	n/a
Unlisted options	27,365,000	12,525,000	5,000,000	n/a	n/a
Performance shares	17,698,710	17,698,710	28,997,850	n/a	n/a
Market capitalisation (\$)	2,662,648	4,949,805	12,355,900	n/a	n/a
Net tangible assets / (liabilities) (NTA) (\$)	824,502	1,433,324	2,673,986	(61,233)	n/a
NTA Backing (cents)	0.77	2.14	4.87	(0.21)	n/a

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

SMART MARINE SYSTEMS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2018

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group to the date of this report.

DIVIDENDS

The Directors recommend that no dividend be provided for the year ended 30 June 2018 (2017: nil).

SIGNIFICANT EVENTS AFTER BALANCE DATE

Other than as disclosed in note 6.6 of the notes to the consolidated financial statements, there has been no matter or circumstance that has arisen after balance date that has 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.

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.

DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

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	7	7	1	2
Craig Anderson ⁽¹⁾	7	7	-	-
David McArthur	7	7	2	2

⁽¹⁾ Not a member of the relevant committee

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.

SMART MARINE SYSTEMS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2018

UNISSUED SHARES UNDER OPTION

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

Date options granted	Number of shares under option	Exercise price of option cents	Expiry date of option
12-May-16	5,000,000	25	30-Jun-19
31-May-16	125,000	25	30-Jun-19
07-May-17	7,000,000	20 – 30	31-Jan-20
01-Jun-17	400,000	5	1-Jun-20
23-Nov-17	6,000,000	10	31-Dec-20
15-Feb-18	3,000,000	8	28-Feb-21
10-Apr-18	2,000,000	10	31-Dec-20
10-Apr-18	1,000,000	5	28-Feb-21
24-Apr-18	2,840,000	8	28-Feb-21
	<u>27,365,000</u>		

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.

Nil options expired during or since the end of the reporting period (2017: nil).

PERFORMANCE RIGHTS

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>

ENVIRONMENTAL LEGISLATION

The Group is not subject to any significant environmental legislation.

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2018

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has agreed to indemnify all the Directors of the Company for any liabilities to another person, (other than the Company or related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year, the Company paid an insurance premium of \$18,367 (2017: \$18,077) in respect of a contract insuring the Directors and officers of the Company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the *Corporations Act 2001*.

No agreements have been entered into to indemnify the Group's auditors.

NON-AUDIT SERVICES

No non-audit services were provided by the auditor during the year.

REMUNERATION REPORT

The Remuneration Report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of Smart Marine Systems Limited for the financial year ended 30 June 2018 and is included on the following page.

PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied under section 237 of the *Corporations Act 2001* for leave of Court 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.

AUDITOR INDEPENDENCE

Section 307C of the *Corporations Act 2001* requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. The Independence Declaration is set out on page 18 and forms part of this Directors' report for the year ended 30 June 2018.

Signed in accordance with a resolution of the Directors.



CRAIG ANDERSON

Director

Dated in Perth, Western Australia, this 18th day of September 2018.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2018

REMUNERATION REPORT

This report, which forms part of the Directors' report, outlines the remuneration arrangements in place for the Directors of Smart Marine Systems Limited for the year ended 30 June 2018. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The Remuneration Report details the remuneration arrangements for the Directors who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, whether executive or otherwise.

Remuneration philosophy

The performance of the Company depends upon the quality of the Key Management Personnel. The philosophy of the Company in determining remuneration levels is to:

- Set competitive remuneration packages to attract and retain high calibre employees;
- Link executive rewards to shareholder value creation; and
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Key Management Personnel.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of Executive Director and Non-executive directors' remuneration is separate and distinct.

Executive Director remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed remuneration

Fixed remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Board has access to external, independent advice where necessary.

Variable remuneration - Short-term incentive scheme

The objective of the short-term incentive program is to link the achievement of the Group's operational targets with the remuneration received by Executive Directors and other key management charged with meeting those targets. The total potential short-term incentive available may be set at a level so as to provide sufficient incentive to the Executive Director and other key management to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Short-term incentives are not based on specific operational and financial indicators as the Group is in the stages of commercialising its technologies.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2018

Remuneration structure (continued)

Variable remuneration - Long-term incentive scheme

The Group also makes long-term incentive payments such as share options and / or performance rights to reward Executive Directors and other key management in a manner that aligns this element of remuneration with the creation of shareholder wealth.

The Company 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. Director options are granted at the discretion of the Board and approved by shareholders. Performance hurdles are not attached to vesting periods, however, the Board determines appropriate vesting periods to provide rewards over a period of time.

Non-Executive Director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Non-Executive Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The latest determination was on 10 May 2016 when the Company was admitted to the Official ASX List and an aggregate remuneration of \$350,000 per annum was set. Any future changes would be approved by shareholders at an Annual General Meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Non-Executive Directors is reviewed annually. The Remuneration Committee considers advice from external shareholders as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Each Non-Executive Director receives a fee for being a Director of the Company which is inclusive of statutory superannuation and membership of sub-committees.

Non-Executive Directors' base fees ranged from \$25,000 to \$30,000 per annum.

Having regard to the cash balance, the Remuneration Committee reviewed the workload and activities undertaken by each director. The Board resolved that with effect from 1 March 2018, the director fee paid to Hamish Jolly be reduced from \$60,000 to \$25,000.

Employment contracts

Remuneration and other terms of employment of Directors and other key management personnel are formalised in an employment contract. The major provisions of the agreement related to remuneration are set out below.

Name	Terms 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

* Base salary is exclusive of 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.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2018

Remuneration of Directors

Name		Short-term employee benefits		Post employment benefits	Share-based payments	Total
		Cash salary and fees (A) \$	D&O Insurance Premiums \$	Superannuation \$	Options \$	
Executive Director						
Craig Anderson	2018	266,346	6,123	23,750	85,200	381,419
	2017	267,308	6,025	23,750	-	297,083
Non-Executive Directors						
Hamish Jolly	2018	44,140	6,122	4,193	42,600	97,055
	2017	54,795	6,026	5,205	-	66,026
David McArthur	2018	27,397	6,122	2,603	21,738	57,860
	2017	27,397	6,026	2,603	-	36,026
Sub-total Non-Executive Directors' remuneration	2018	71,537	12,244	6,796	64,338	154,915
	2017	82,192	12,052	7,808	-	102,052
Total Directors' Remuneration	2018	337,883	18,367	30,546	149,538	536,334
	2017	349,500	18,077	31,558	-	399,135

(A) Includes annual leave for executive directors

No element of remuneration in 2018 and 2017 was linked to performance.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2018

Options

Granted as compensation

At the date of this report, share options granted to the Directors of the Company as part of their remuneration are:

	Number of options granted	Grant date	Value per option at grant date cents	Value of options at grant date \$	Vesting and first exercise date (1)	Last Exercised date	Exercise price per option cents	Expiry date
Craig Anderson	4,000,000	23-Nov-17	2.13	85,200	-	30-Dec-20	10	31-Dec-20
Hamish Jolly	2,000,000	23-Nov-17	2.13	42,600	-	30-Dec-20	10	31-Dec-20
David McArthur	2,000,000	10-Apr-18	1.09	21,738	-	30-Dec-20	10	31-Dec-20

⁽¹⁾ Each option will vest if the share price is at least 10 cents per share for five consecutive days.

The options tabled above were provided at no cost to the recipients.

No options granted as compensation were exercised, forfeited, lapsed or cancelled during the current or prior year.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2018

Share-based remuneration granted as compensation

For details of share-based payments granted during the year, refer note 6.1.

Other information

Ordinary shares held by Directors

	Held at 30 June 2017 Number	Purchases Number	Held at 30 June 2018 Number
Executive Directors			
Craig Anderson	17,240,259	-	17,240,259
Non-Executive Directors			
Hamish Jolly	17,094,279		17,094,279
David McArthur	165,000	5,000	170,000

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

Options held by Directors

	Held at 30 June 2017	Granted as remuneration	Held at 30 June 2018	Vested and exercisable at 30-Jun-18	Unvested and unexercisable at 30-Jun-18
Executive Directors					
Craig Anderson	-	4,000,000	4,000,000	-	4,000,000
Non-Executive Directors					
Hamish Jolly	-	2,000,000	2,000,000	-	2,000,000
David McArthur	-	2,000,000	2,000,000	-	2,000,000

Performance shares held by Directors

	Held at 30 June 2017	Converted to fully paid shares	Held at 30 June 2018	Convertible at 30 June 2018
Executive Directors				
Craig Anderson	7,788,446	-	7,788,446	-
Non-Executive Directors				
Hamish Jolly	7,788,446	-	7,788,446	-

SMART MARINE SYSTEMS LIMITED

REMUNERATION REPORT

For the year ended 30 June 2018

Other transactions with Key Management Personnel

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

Use of remuneration consultants

No remuneration consultants provided services during the year.

Voting and comments at the Company's 2017 Annual General Meeting

The Company received 96.45% of "yes" votes on its remuneration report for the 30 June 2017 financial year.

THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

SMART MARINE SYSTEMS LIMITED
LEAD AUDITOR'S INDEPENDENCE DECLARATION



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Smart Marine Systems Limited for the year ended 30 June 2018, 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.

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

Perth, Western Australia
18 September 2018

M R Ohm
Partner

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

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Liability limited by a scheme approved under Professional Standards Legislation

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

SMART MARINE SYSTEMS LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	2018 \$	2017 \$
Assets			
Cash and cash equivalents	4.1	466,642	624,251
Trade and other receivables	4.2	26,471	57,823
Inventory	4.3	29,641	7,732
Prepayments		57,385	31,869
Other bonds and deposits		13,508	-
Current tax assets		117,103	460,518
Total current assets		710,750	1,182,193
Intangible assets	3.2	108,374	301,950
Property, plant and equipment	3.3	371,279	551,150
Interests in associates	6.5	-	-
Loans to associates		-	16,034
Total non-current assets		479,653	869,134
Total assets		1,190,403	2,051,327
Liabilities			
Trade and other payables	4.4	125,316	199,424
Borrowings	5.2	29,264	22,015
Employee entitlements	2.4	63,124	46,839
Total current liabilities		217,704	268,278
Borrowings	5.2	39,823	47,775
Total non-current liabilities		39,823	47,775
Total liabilities		257,527	316,053
Net assets		932,876	1,735,274
Equity			
Issued capital	5.1	6,214,775	5,142,917
Reserves		957,168	592,871
Accumulated losses		(6,239,067)	(4,000,514)
Total equity attributable to equity holders of the Company		932,876	1,735,274

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

SMART MARINE SYSTEMS LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Continuing operations			
Sales	2.2	57,222	189,403
Other income	2.3	85,870	481,624
Cost of sales		(13,830)	-
Selling and distribution expenses		(11,460)	-
Other operating expenses		(11,289)	(182,735)
Marketing and business development		(312,614)	(315,073)
Personnel expenses	2.4	(1,099,360)	(1,060,676)
General and administration		(223,706)	(201,123)
Professional fees		(285,280)	(335,890)
Depreciation and amortisation		(389,053)	(750,353)
Research and development		(267,037)	(430,141)
Finance expenses	2.5	(8,951)	(5,140)
Share-based payments – conversion of performance shares		-	(1,159,914)
Impairment of intangible assets	3.2	(2,415)	(256,214)
Share of loss of associate	6.5	-	(49,767)
Impairment of investment in associate	6.5	-	(13,167)
Other losses		(45,983)	(8,995)
Loss before income tax		(2,527,886)	(4,098,161)
Income tax benefit	2.6	289,333	531,725
Net loss for the year		(2,238,553)	(3,566,436)
Other comprehensive income, net of tax			
Foreign currency translation differences on foreign operations		894	-
Total comprehensive loss for the year		(2,237,659)	(3,566,436)
Loss attributable to owners of the Company		(2,238,553)	(3,566,436)
Total comprehensive loss attributable to owners of the Company		(2,237,659)	(3,566,436)
Loss per share			
Basic and diluted loss per share (cents per share)	2.7	(2.91)	(5.93)

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

SMART MARINE SYSTEMS LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

	Note	Attributable to equity holders of the Company				Total
		Share capital	Foreign currency translation reserve	Share-based payments reserve	Accumulated losses	
		\$	\$	\$	\$	\$
Balance at 1 July 2017		5,142,917	-	592,871	(4,000,514)	1,735,274
Loss for the year		-	-	-	(2,238,553)	(2,238,553)
Foreign exchange translation difference on foreign operations		-	894	-	-	894
Total other comprehensive income for the year		-	894	-	-	894
Total comprehensive loss for the year		-	894	-	(2,238,553)	(2,237,659)
Transactions with owners, recorded directly in equity						
<i>Contributions by and distributions to owners</i>						
Issue of ordinary shares	5.1	1,188,500	-	-	-	1,188,500
Share-based payment transactions		-	-	363,403	-	363,403
Capital raising costs	5.1	(116,642)	-	-	-	(116,642)
Total transactions with owners		1,071,858	-	363,403	-	1,435,261
Balance at 30 June 2018		6,214,775	894	956,274	(6,239,067)	932,876

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

SMART MARINE SYSTEMS LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

		Attributable to equity holders of the Company			Total
		Share Capital	Share-based payments reserve	Accumulated losses	
	Note		\$	\$	\$
Balance at 1 July 2016		3,936,393	306,500	(434,078)	3,808,815
Total comprehensive loss for the year		-	-	(3,566,436)	(3,566,436)
Transactions with owners, recorded directly in equity					
<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		1,159,914	-	-	1,159,914
Share-based payment transactions		-	286,371	-	286,371
Capital raising costs	5.1	(140)	-	-	(140)
Total transactions with owners		1,206,524	286,371	-	1,492,895
Balance at 30 June 2017		5,142,917	592,871	(4,000,514)	1,735,274

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

SMART MARINE SYSTEMS LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		129,580	598,251
Cash paid to suppliers and employees		(1,636,232)	(1,485,679)
Interest paid		(8,891)	(3,740)
Interest received		4,328	19,149
Payments for research and development		(267,037)	(430,141)
Income taxes received		632,747	9,542
Net cash used in operating activities	4.1(b)	(1,145,505)	(1,292,618)
Cash flows from investing activities			
Payments for capitalised research and development		(3,195)	(105,889)
Payments for plant and equipment		(14,826)	(709,673)
Receipt of loans from associate		16,034	-
Investment in associate		-	(221)
Loans to associate		-	(16,034)
Net cash used in investing activities		(1,987)	(831,817)
Cash flows from financing activities			
Proceeds from issue of share capital	5.1	1,092,500	-
Proceeds from related party loans		50,000	-
Payment of capital raising costs		(50,642)	(3,333)
Payment of transaction costs related to loans		(60)	(60)
Repayment of loans from related parties	5.2	(50,000)	-
Repayment of borrowings and premium funding facility	5.2	(52,504)	(25,119)
Net cash from / (used in) financing activities		989,294	(28,512)
Net decrease in cash and cash equivalents		(158,198)	(2,152,947)
Cash and cash equivalents at 1 July		624,251	2,777,198
Effect of exchange rate fluctuations on cash held		589	-
Cash and cash equivalents at 30 June	4.1(a)	466,642	624,251

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

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. There have been no changes to the Group's accounting policies during the year.

1.1 GENERAL INFORMATION

The Company is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 1, 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 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and were authorised for issue by the Board of Directors on 18 September 2018. 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;
- 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 2017. Refer to note 6.10 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.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 liabilities in the normal course of business.

At balance date, the Group had net assets of \$932,876 (2017: \$1,735,274), and a working capital surplus of \$493,046 (2017: \$913,915). During the year ended 30 June 2018, the Group recorded cash outflows from operating activities of \$1,144,360 (2017: \$1,292,618), cash outflows from investing activities of \$1,987 (2017: \$831,817) and inflows from financing activities of \$988,149 (2017: outflow of \$28,512). The ability for the entity to continue as a going concern is dependent on utilising existing facilities and commercialising its operations to continue funding its operational activities.

The Company has been working with Orange County, California State and US Federal Congress officials on an integrated shark management plan that includes installation of the Clever Buoy systems, initially at Balboa Pier, Newport Beach and further beaches along their coastline. Installation of the Clever Buoy system at Balboa Pier will commence mid-August. Formal approval by Newport Beach City is an excellent endorsement of the technology in a large-scale US market for the technology.

The Company is negotiating a capital raising to provide funds to cover immediate cash flow requirements whilst the US deployment of Clever Buoy is completed. The Company is also eligible for R&D and EMDG government grants.

Whilst there is uncertainty regarding the outcomes of funding alternatives, the Company has the capacity to delay or cancel expenses that are discretionary in nature, including administration costs and design and development. However, the above conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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.

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.

1.4 FOREIGN CURRENCY TRANSLATION

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.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.4 FOREIGN CURRENCY TRANSLATION (continued)

The functional currency of the Group's overseas operation, Clever Buoy (USA) LLC, is US Dollars (US\$).

As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of Smart Marine Systems Limited at the rate of exchange ruling at the balance date and income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the date of the transactions are used.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

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. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

1.6 IMPAIRMENT

Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets, 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 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 1.2* - *Going concern*
- *Note 2.6* - *Income tax expense*
- *Note 5.2* - *Loans and borrowings*
- *Note 6.1* - *Share-based payments*

SMART MARINE 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; and
- 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	
	2018 \$	2017 \$	2018 \$	2017 \$
SAMS visual deterrent technology	3,329	63,605	(54,159)	(704)
Clever Buoy shark detection technology	459,296	813,192	(121,636)	(54,514)
Total segment assets and liabilities	462,625	876,797	(175,795)	(55,218)
Loans to associates	-	16,034	-	-
Corporate and other segment assets/liabilities	727,778	1,158,496	(81,732)	(260,835)
Total	1,190,403	2,051,327	(257,527)	(316,053)

SMART MARINE 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	
	2018 \$	2017 \$	2018 \$	2017 \$
SAMS visual technology	57,222	103,268	(203,225)	(362,508)
Clever Buoy shark detection technology	-	86,135	(911,136)	(1,286)
Total for continuing operations	57,222	189,403	(1,114,361)	(363,794)
Share of loss of associate			-	(49,767)
Impairment of investment in associate			-	(13,167)
Finance income			3,653	19,824
Central and administration expenses			(1,408,227)	(3,686,117)
Finance expense			(8,951)	(5,140)
Loss before tax			(2,527,886)	(4,098,161)

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

Information about major customers

The Group's top customers greater than 10% of revenue account for 71.82% (2017: 96.57%) 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	
	2018 %	2017 %	2018 \$	2017 \$	2018 \$	2017 \$
First	56.35	48.87	-	-	32,244	92,552
Second	15.47	5.27	-	50,390	8,853	9,984

SMART MARINE 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	
	2018 \$	2017 \$	2018 \$	2017 \$
Australia / New Zealand	15,130	76,106	479,653	869,134
Europe	32,244	92,552	-	-
USA	9,848	20,745	-	-
	57,222	189,403	479,653	869,134

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.

	2018 \$	2017 \$
Sale of goods	19,723	-
Research services	32,599	157,942
Rendering of services	-	20,745
Royalties and commissions	4,900	10,716
	57,222	189,403

SMART MARINE 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.

	2018	2017
	\$	\$
Government grants	54,023	461,800
Finance income	3,653	19,824
Insurance claim	28,194	-
	85,870	481,624

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.

	Note	2018	2017
		\$	\$
Wages and salaries		329,092	326,424
Directors' remuneration	6.3	536,334	399,135
Contributions to defined contribution plans		31,264	31,010
(Decrease) / increase in liability for annual leave		(1,461)	20,842
Equity-settled share-based payments		198,090	276,446
Fringe benefits tax		5,060	5,275
Other associated personnel expenses		981	1,544
		1,099,360	1,060,676

Further information relating to directors' remuneration is set out in note 6.3.

SMART MARINE 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.

Current	2018	2017
	\$	\$
Salary accrual	(3,360)	(2,081)
Superannuation	(319)	(198)
Liability for annual leave	(59,445)	(44,560)
	(63,124)	(46,839)

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.

	Note	2018	2017
		\$	\$
Interest expense on financial liabilities measured at amortised cost			
Interest expense on loans received from related parties	5.2	2,082	-
Interest expense on premium funding	5.2	2,921	1,304
Interest expense on other borrowings	5.2	3,888	2,436
Other finance charges		60	1,400
Finance expense recognised in profit or loss		8,951	5,140

SMART MARINE 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

	2018	2017
	\$	\$
Current tax benefit / (expense)		
Current tax	116,071	198,545
Deferred tax	-	304,302
Over provision in prior year	173,262	28,878
Total income tax benefit	289,333	531,725

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.6 INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate

	2018	2017
	\$	\$
Loss for the year	(2,238,553)	(3,566,436)
Total income tax benefit / (expense)	(289,333)	(531,725)
Loss excluding income tax	(2,527,886)	(4,098,161)
Income tax at the Australian tax rate of 27.5% (2017: 27.5%)	(695,169)	(1,126,994)
<i>Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:</i>		
Entertainment	1,094	4,820
Share-based payments	99,936	410,584
Research and development benefit	(43,073)	(77,212)
Share of loss of associate	-	13,686
Impairment of investment in associate	-	3,621
Other permanent differences	11,750	2,988
Change in corporate tax rate in SBE	-	(10,677)
Difference in foreign income tax rates	(2,379)	-
Under / (over) provision in prior years	(173,262)	(28,878)
Deferred tax assets not brought to account	511,770	276,337
	(289,333)	(531,725)

(c) Recognised deferred tax assets and liabilities

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

	2018	2017
	\$	\$
Deferred tax liabilities (DTLs)		
Receivables	-	2,422
Prepayments	15,781	8,764
Research and development	14,253	138,512
	30,034	149,698
Off-set of deferred tax assets	(30,034)	(149,698)
Net deferred tax liability recognised	-	-

SMART MARINE 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:

	2018	2017
	\$	\$
Deferred tax assets (DTAs)		
Tax losses	769,029	470,049
Property, plant and equipment	31,582	-
Capital raising costs	71,956	47,185
Employee entitlements	16,435	12,309
Investments	4,027	-
Other temporary differences	18,543	38,351
	911,572	567,894
Off-set of deferred tax liabilities	(30,034)	(149,698)
Net deferred tax assets unrecognised	881,538	418,196

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not yet probable that sufficient future taxable income will be available against which the Group can utilise the benefits thereof.

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 considers the dilutive effect of all potential ordinary shares, being share options on issue.

Loss per share attributable to ordinary shareholders

		2018	2017
Net loss attributable to ordinary shareholders	\$	(2,238,553)	(3,566,436)
Issued ordinary shares at 1 July	(number)	66,889,153	54,915,013
Effect of shares issued	(number)	9,980,642	5,271,742
Weighted average number of ordinary shares at 30 June		76,869,895	60,186,855
Basic and diluted loss per share *	(cents)	(2.91)	(5.93)

* At 30 June 2018, 27,365,000 options (2017: 12,525,000 options) and 17,698,710 performance shares (2017: 17,698,710 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 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.

3.2 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 intend to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a diminishing balance basis over three years, once the asset is ready for use.

Patents and trademarks

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

Trademarks are not amortised as they have an indefinite useful life as the Company renews its trademark registration every ten years but are subject to impairment.

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.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.2 INTANGIBLE ASSETS (continued)

	SAMS Patents \$	SAMS Development \$	Clever Buoy Patents \$	Clever Buoy Development \$	Formation Costs \$	Total \$
Gross carrying amount						
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)
Balance at 30 June 2017	-	-	10,750	807,251	1,253	819,254
Balance at 1 July 2017	-	-	10,750	807,251	1,253	819,254
Additions	1,765	650	-	780	-	3,195
Impairment	(1,765)	(650)	-	-	-	(2,415)
Balance at 30 June 2018	-	-	10,750	808,031	1,253	820,034
Amortisation						
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)
Balance at 30 June 2017	-	-	-	516,051	1,253	517,304
Balance at 1 July 2017	-	-	-	516,051	1,253	517,304
Amortisation for the year	-	-	223	194,133	-	194,356
Balance at 30 June 2018	-	-	223	710,184	1,253	711,660
Carrying amounts						
Balance at 30 June 2017	-	-	10,750	291,200	-	301,950
Balance at 30 June 2018	-	-	10,527	97,847	-	108,374

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.

3.3 PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

Recognition and measurement

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and recognised net within "other gains and losses" in profit or loss.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a diminishing balance basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of the assets are as follows:

Plant and equipment	3 – 15 years
Motor vehicles	12 - 15 years
Computer equipment & software	2 – 4 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.3 PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant & equipment	Fixtures & fittings	Computer equipment	Mobile 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	1,512	-	7,634	-	-	4,780	900	14,826
Transfers	-	-	-	-	7,454	-	(7,454)	-
Disposals	(569)	-	-	-	-	-	-	(569)
Balance at 30 June 2018	440,235	37,545	20,342	102,909	112,852	10,731	-	724,614
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	132,217	3,472	313	14,155	42,709	1,831	-	194,697
Disposals	(569)	-	-	-	-	-	-	(569)
Balance at 30 June 2018	241,231	7,663	13,021	22,491	61,147	7,782	-	353,335
Carrying amounts								
Balance at 30 June 2017	329,709	33,354	-	94,573	86,960	-	6,554	551,150
Balance at 30 June 2018	199,004	29,882	7,321	80,418	51,705	2,949	-	371,279

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

	2018	2017
	\$	\$
Cash and cash equivalents in the statement of cash flows	466,642	624,251

(b) Reconciliation of cash flows from operating activities

Cash flows from operating activities		
Operating loss after tax	(2,238,553)	(3,566,436)
Adjustments for:		
Depreciation and amortisation	389,053	750,353
Equity-settled share-based payment transactions	393,403	1,493,035
Net finance expense	735	724
Share of loss / (profit) of associate	-	49,767
Impairment of investment in associate	-	13,167
Allowance for doubtful debts	41,510	-
Gain on disposal of property, plant and equipment	(419)	-
Impairment of intangible assets	2,415	-
Change in operating assets and liabilities:		
Change in trade and other receivables	(10,280)	45,633
Change in prepayments	(25,516)	(15,333)
Change in inventories	(21,909)	(7,732)
Change in other operating assets	(13,508)	-
Change in current tax assets	343,415	(217,881)
Change in deferred tax assets	-	1,745
Change in trade and other payables	(73,938)	109,080
Change in interest bearing liabilities	51,802	81,410
Change in deferred tax liabilities	-	(306,047)
Deferred income	-	(20,745)
Change in employee entitlements	16,285	40,428
Net cash used in operating activities	(1,145,505)	(1,292,618)

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.2 TRADE AND OTHER RECEIVABLES

Accounting Policy

Trade and other receivables represent the principal amounts due at reporting date less, where applicable, any allowance for doubtful debts. Trade receivables are generally due for settlement within periods ranging from seven to 30 days.

Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

	2018	2017
	\$	\$
Current		
Trade debtors ⁽¹⁾	50,199	42,466
Allowance for impairment	(41,510)	-
	8,689	42,466
Other receivables	17,782	15,357
	26,471	57,823

- ⁽¹⁾ the average credit period on sales of goods and rendering of services is 34 days. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Movement in allowance for doubtful debts

	2018	2017
	\$	\$
Balance at the beginning of the year	-	-
Impairment losses recognised on receivables	41,510	-
Balance at the end of the year	41,510	-

In determining the recoverability of a trade receivable, the Group considers any changes in the credit quality of the trade receivable from the date credit was initially granted up to the balance date. The directors believe that there is no further credit provision required in excess of the allowance for impairment.

Ageing of impaired receivables

	2018	2017
	\$	\$
Current	368	-
Over 90 days	41,142	-
Balance at the end of the year	41,510	-

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Goods 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.

	2018	2017
	\$	\$
Current		
Raw materials	-	256
Packing materials	5,155	-
Finished goods	14,461	-
Goods in transit	1,067	-
Sample stock	8,958	7,476
	29,641	7,732

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, non-interest bearing and are usually paid at the end of the month following date of recognition.

	2018	2017
	\$	\$
Current		
Trade payables	1,920	173,269
Authorised government agencies	5,030	3,638
Non-trade payables and accrued expenses	118,366	22,517
	125,316	199,424

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

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 \$	
	2018	2017	2018	2017
Movement in ordinary shares on issue:				
On issue at 1 July	66,889,253	54,915,113	5,142,917	3,936,393
<i>Shares issued and expensed during the year:</i>				
Issue of fully paid shares for cash	36,416,676	-	1,092,500	-
Issue of fully paid shares in lieu of consultancy fees	3,200,000	-	96,000	-
Issue of fully paid shares pursuant to endorsement agreements	-	375,000	-	46,750
Issue of fully paid shares on conversion of Class A performance shares	-	11,599,140	-	1,159,914
Capital raising costs	-	-	(116,642)	(140)
On issue at 30 June	106,505,929	66,889,253	6,214,775	5,142,917

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Share options

The Company has a share-based payment option scheme under which options to subscribe for the Company's shares have been granted to certain Directors and employees (see note 6.1).

Nature and purpose of reserves

Movement in reserves are shown within the Statement of Changes in Equity.

Share-based payments reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note 6.1 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.2 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.

Accounting Policy

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

	2018	2017
	\$	\$
<i>Unsecured</i>		
Other borrowings	47,875	54,513
Premium funding facility	21,212	15,277
	69,087	69,790
Current	29,264	22,015
Non-current	39,823	47,775
	69,087	69,790

Reconciliation of movement in borrowings

	Loans from a director ⁽²⁾	Premium funding	Other borrowings
	\$	\$	\$
Balance at 1 July 2016	-	12,161	-
Premium funding facility	-	25,410	-
Acquisition of assets through debt funding	-	-	56,000
Interest charged	-	1,304	2,436
Transaction costs	-	-	1,340
Less repaid	-	(23,598)	(5,263)
Balance at 30 June 2017	-	15,277	54,513
Loans & borrowings received	50,000	-	-
Premium funding facility	-	51,801	-
Interest & establishment costs charged	2,082	2,921	3,888
Less repaid ⁽¹⁾	(52,082)	(48,787)	(10,526)
Balance at 30 June 2018	-	21,212	47,875

⁽¹⁾ Amounts repaid include interest and loan establishment costs;

⁽²⁾ Refer to note 6.3 for further details.

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 considered 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:

	2018	2017
	\$	\$
(a) Expensed in personnel expenses		
Options issued to directors	149,538	-
Options issued to employees	198,090	276,445
(b) Expensed in professional fees		
Options issued to consultants of the Company	36,000	-
Shares issued pursuant to endorsement agreements	-	46,750
Options issued pursuant to endorsement agreements	-	9,926

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Options

The following tables illustrate the share-based payment arrangements in place, and the number and weighted average exercise prices of and movements in, share options.

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

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Fair value at grant date (cents)	Balance at start of year	Granted during the year	Balance at end of year	Vested and exercisable at end of 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	-
Total					5,000,000	7,525,000	12,525,000	7,125,000
Weighted average exercise price (cents)					25.00	23.27	23.96	-
Weighted average remaining contractual life (years)					3.00	-	3.00	-

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Options (continued)

At 30 June 2018, a summary of the Group options issued and not exercised are as follows:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Fair value at grant date (cents)	Balance at start of year	Granted during the year	Balance at end of year	Vested and exercisable at end of 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	6,000,000
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	-
23-Nov-17	31-Dec-18	31-Dec-20	10		-	6,000,000	6,000,000	-
10-Apr-18	24-Apr-18	31-Dec-20	10		-	2,000,000	2,000,000	-
10-Apr-18	24-Apr-18	28-Feb-21	5		-	1,000,000	1,000,000	1,000,000
Total					12,525,000	9,000,000	21,525,000	12,125,000
Weighted average exercise price (cents)					23.96	9.44	17.89	-
Weighted average remaining contractual life (years)					2.36	-	1.85	-

During the year ended 30 June 2018, no options were forfeited or expired (2017: no options forfeited or expired).

Options are settled by the physical delivery of shares.

SMART MARINE 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	Tranche 7	Tranche 8	Tranche 9
Exercise price (cents)	25	25	20	25	30	5	10	10	5
Grant date	12-May-16	31-May-16	7-Feb-17	7-Feb-17	7-Feb-17	1-Jun-17	23-Nov-17	10-Apr-18	10-Apr-18
Expiry date	30-Jun-19	30-Jun-19	31-Jan-20	31-Jan-20	31-Jan-20	1-Jun-20	31-Dec-20	31-Dec-20	28-Feb-21
Life of the options (years)	3.13	3.08	2.98	2.98	2.98	3.00	3.11	2.73	2.89
Volatility	50%	93%	90%	90%	90%	113.97%	85%	99.01%	99.01%
Risk free rate	2.00%	1.83%	1.81%	1.81%	1.81%	1.66%	1.81%	1.81%	1.81%

Vesting Conditions

Tranches 1 to 5 and Tranche 9

Each option vested and were exercisable immediately after they were issued.

Tranches 7 and 8

Each option issued will vest if the share price is at least 10 cents per share for five consecutive days before expiry date

Tranche 6

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;

The Director's assess at each reporting date, the likelihood the above vesting conditions will be met. Management has determined that there is insufficient information at present to indicate that Tranche 6 options will vest.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Performance shares

At 30 June 2018, 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 B	8,699,355	-	-	8,699,355	-
(ii)	2-Feb-16	2-Feb-21	Class C	8,699,355	-	-	8,699,355	-
(iii)	24-Aug-16	24-Aug-19	Class D	100,000	-	-	100,000	-
(iv)	24-Aug-16	24-Aug-19	Class E	100,000	-	-	100,000	-
(v)	24-Aug-16	24-Aug-19	Class F	100,000	-	-	100,000	-

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:

On 20 January 2017, following the execution of a new licensing agreement for the application of the SAMS™ technology by an entity involved in the production or distribution of marine apparel and/or equipment (SAMS™ Licensing Agreement), 11,599,140 Class A performance shares were exercised.

(i) 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 SAMS™ Licensing Agreement has already been achieved, the execution of a Clever Buoy™ Contract; or
- (D) execution of a second SAMS™ Licensing Agreement; or
- (E) in the event that a Clever Buoy™ Contract has been achieved, execution of a SAMS™ Licensing Agreement; or
- (F) the execution of a second Clever Buoy™ Contract.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Performance shares (continued)

- (ii) 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 SAMS™ Licensing Agreements have already been achieved, a third SAMS™ Licensing Agreement; or
 - (D) in the event that two Clever Buoy™ Contracts have been achieved, execution of a third Clever Buoy™ Contract; or
 - (E) in the event that one SAMS™ Licensing Agreement and one Clever Buoy™ Contract have been achieved, either a second SAMS™ Licensing Agreement, or a second Clever Buoy™ Contract.
- (iii) 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
- (iv) 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
- (v) 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. Management has determined that there is insufficient information at present to indicate that the performance shares will vest.

SHARK MITIGATION SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 FINANCIAL INSTRUMENTS

Accounting Policy

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.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax and general administrative outgoings

Categories of financial instruments

	Consolidated	
	2018	2017
	\$	\$
Financial assets		
Trade and other receivables	26,471	57,823
Other bonds and deposits	13,508	-
Cash and cash equivalents	466,642	624,251
Financial liabilities		
Trade and other payables	(125,316)	(199,424)
Borrowings	(69,087)	(69,790)
Employee entitlements	(3,679)	(2,279)

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives

The Group is exposed to market risk (including foreign currency exchange rate risk and interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effect of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's Board of Directors who 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 on a continuous basis to reflect changes in market conditions and the Group's activities. The Group does not trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Foreign currency exchange rate risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the balance date expressed in Australian dollars are as follows:

	Consolidated			
	Assets		Liabilities	
	2018	2017	2018	2017
	\$	\$	\$	\$
Currency				
US Dollars	54,081	-	-	-

Foreign currency sensitivity analysis

The sensitivity analysis below details the Group's sensitivity to an increase/decrease in the Australian dollar against the United States dollar and Euro. The sensitivity analysis includes only outstanding foreign currency denominated monetary items.

At balance date, if foreign exchange rates had been 500 basis points higher or lower, and all other variables were held constant, the impact on profit or loss would be:

	Impact on profit & loss	
	2018	2017
	\$	\$
If AUD strengthens by 5% (2017: n/a)		
US dollar	1,148	-
Euro	3,009	-
If AUD weakens by 5% (2017: n/a)		
US dollar	(1,268)	-
Euro	(3,326)	-

The Group's sensitivity to foreign exchange rates has increased during the year mainly to the exposure outstanding on USD payables at year end.

6.2 FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group's exposure to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group had adopted a policy of only dealing with creditworthy counterparties.

The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rates its customers.

The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks or government agencies with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

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

Contracted maturity

The following tables detail the Group's expected contractual maturities for its non-derivative financial liabilities.

These have been drawn up based on undiscounted contractual maturities of the financial liabilities based on the earliest date the Group can be required to repay.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

The tables include both interest and principal cash flows.

	Weighted average interest rate %	Less than 6 months \$	6 months to 1 year \$	More than 1 year \$
30 June 2018				
Trade and other payables	-	128,995	-	-
Borrowings	2.88	26,884	5,263	41,320
		<u>155,879</u>	<u>5,263</u>	<u>41,320</u>
30 June 2017				
Trade and other payables		201,703	-	-
Borrowings	3.41	21,617	5,263	42,197
		<u>223,320</u>	<u>5,263</u>	<u>42,197</u>

Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy.

The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- 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.

SMART MARINE 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:

	Note	2018 \$	2017 \$
Short-term employee benefits		337,883	349,500
Post-employment benefits		30,546	31,558
Share-based payments		149,538	-
Non-monetary benefits – D&O liability insurance		18,367	18,077
	2.4	536,334	399,135

Other transactions with key management personnel

The Group used the corporate services of Broadway Management Pty Ltd, a company associated with Mr David McArthur for which he exercises significant influence. The amounts billed, which related to the management of the Groups accounting, financial reporting and statutory compliance functions, amounted to \$84,000 (2017: \$72,000) and were based on normal market rates. At the reporting date \$16,000 (2017: \$12,000) was outstanding.

Broadway Management Pty Ltd also provided a cash loan to the Company, repayable within six months if, and when, the Company was in a financial position to do so, accruing interest at 10% per annum, pro rata. The loan was repaid in January 2018.

6.4 SUBSIDIARIES

Details of the Group's 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	
				2018 %	2017 %
Shark Attack Mitigation Systems Pty Ltd		Australia	30 June	100	100
Clever Buoy LLC		United States		100	-
Clever Buoy Australia Pty Ltd		Australia		100	-

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.5 ASSOCIATES

Investments in associates are accounted for using the equity method in these consolidated financial statements.

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2018 %	2017 %
Seabin Pty Ltd	Marina cleaning technology	Australia	20%	20%

	2018 \$	2017 \$
Interests in associates	-	-
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 July	-	48,292
Investment	-	14,642
Share of loss for the year	-	(49,767)
Impairment of investment	-	(13,167)
Balance at 30 June	-	-

The summarised financial information for the Group's associate has not been disclosed as there is a history of equity-accounted losses and the movement during the reporting period is not material.

6.6 SUBSEQUENT EVENTS

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.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.7 CONTINGENT LIABILITIES

Pursuant to a marketing services agreement with a consultant entered into in February 2018, the Company has a contingent liability to provide up to a total of 2,750,00 unlisted options with various exercise prices. These options will only be issued when certain market-based criteria are met.

6.8 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 30 June 2018, the parent entity of the Group was Smart Marine Systems Limited.

	2018	2017
	\$	\$
Result of the parent entity		
Loss for the year	(2,687,315)	(3,689,816)
Other comprehensive income	-	-
Total comprehensive loss for the year	(2,687,315)	(3,689,816)
Financial position of parent entity at year end		
Current assets	589,189	579,674
Total assets	628,392	1,850,648
Current liabilities	(143,696)	(113,898)
Total liabilities	(143,696)	(113,898)
Total equity of the parent entity comprising of:		
Share capital	7,227,632	6,155,774
Reserves	956,274	592,871
Accumulated losses	(7,699,210)	(5,011,895)
Total equity	484,696	1,736,750

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.9 AUDITORS' REMUNERATION

	2018	2017
	\$	\$
HLB Mann Judd Australia:		
Audit and review of financial reports	41,500	44,500
Non-audit services	-	-
TOTAL AUDITORS' REMUNERATION	41,500	44,500

6.10 ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations applicable to 30 June 2018

In the year ended 30 June 2018, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to Group policies.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all Standards and Interpretations in issue not yet adopted for the year ended 30 June 2018.

As a result of this review the Directors have determined that other than as mentioned below, there is no material impact of the Standards and Interpretations in issue not yet adopted on the Company and, therefore, no change is necessary to Group accounting policies.

AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* become effective for periods beginning on or after 1 July 2018. Directors do not expect the impact of these two standards to be material.

AASB 16 *Leases* becomes effective for periods beginning on or after 1 July 2019. The Directors are in the process of assessing the impact of this standard.

SMART MARINE SYSTEMS LIMITED
DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Smart Marine Systems Limited (the "Company"):
 - a. the accompanying 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 30 June 2018 and of its performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements.
 - b. 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.
 - c. the 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 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

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



CRAIG ANDERSON
Managing Director

Dated this 18th day of September 2018

Independent Auditor's Report to the Members of Smart Marine Systems Limited**REPORT ON THE AUDIT OF THE FINANCIAL REPORT****Opinion**

We have audited the financial report of Smart Marine Systems Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other 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 2018 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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 1.2 in the financial report, which indicates that a material uncertainty exists 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
Recognition and recoverability of intangible assets (Note 3.2) The Group has recorded intangible assets of \$108,374 as at 30 June 2018 which relates to the Clever Buoy technology. Recognition and recoverability of intangible assets relating to this 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.	Our procedures included but were not limited to: - Reviewing amounts capitalised as intangible assets during the year to ensure such items met the recognition criteria within Australian accounting standards; - Considering the existence of any indicators of impairment under AASB 136 'Impairment of Assets'; - Ensuring the amortisation expense was correctly calculated and appropriate; and - Ensuring that appropriate disclosures were made within the financial report.
Share Based Payments (Note 6.1) The Group has entered into various share-based payment arrangements with both key management personnel and external parties. 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.	Our procedures included but were not limited to: - 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 <i>Share-based payment</i>; and - Reviewing the treatment of vesting conditions in relation to the amounts recorded for share-based payments during the period.

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 2018, 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.

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 2018.

In our opinion, the Remuneration Report of Smart Marine Systems Limited for the year ended 30 June 2018 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

Perth, Western Australia
18 September 2018



Marcus Ohm
Partner

CORPORATE GOVERNANCE STATEMENT

The 2018 Corporate Governance Statement is dated as at 30 June 2018 and reflects the corporate governance practices in place throughout the 2018 financial year.

Smart Marine Systems 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 3rd 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 of Directors (continued)

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.

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 specific 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 a majority of the Shareholders at the first Annual General Meeting after the appointment.

SMART MARINE SYSTEMS LIMITED

CORPORATE GOVERNANCE STATEMENT

Board of Directors (continued)

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 more than 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.

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 to fulfil their duties and responsibilities as Directors.

Board Performance Review

The performance of all Directors is assessed through review by the whole Board 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

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
- 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

Board Committees (continued)

Audit and Risk Management Committee (continued)

- 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)

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

Board Committees (continued)

Remuneration and Nomination Committee (continued)

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.

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.

Ethical Standards (continued)

Continuous Disclosure (continued)

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
- 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;

Diversity Policy (continued)

- 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; and
- 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 an objective of providing a balanced representation of employees from a diversity stance across the Group. The Board has also implemented strategies to support the framework and objectives of the Diversity Policy and is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanism. For the 2018 financial year, the Boards' objectives were met by the Group. The Board assesses annually the progress and achievement of the objectives.

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	60%	40%

SMART MARINE SYSTEMS LIMITED

CORPORATE GOVERNANCE STATEMENT

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.

Recommendations 2.1 / 8.1

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*

Recommendation 2.4

A majority of the Board of a listed entity should be Independent Directors.

Recommendation 2.5

The chair of the board of a listed entity should be an Independent Director and, in particular, should not be the same person as the CEO of the entity.

Recommendations 4.1 / 7.1

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*

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.

Only one of the three directors is considered independent. Additionally, a Chairman has not been appointed. 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.

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 2018 and has been approved by the Board.



Director – Hamish Jolly



Director – David McArthur

SMART MARINE SYSTEMS LIMITED
STOCK EXCHANGE INFORMATION

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 31 August 2018:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	14	3,277	-
1,001 - 5,000	116	387,017	0.36
5,001 - 10,000	93	824,778	0.78
10,001 - 100,000	319	13,359,379	12.54
100,001 and over	131	91,931,378	86.32
Total	673	106,505,829	100.00

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

2. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
Ms Michelle Anne Anderson <The MCA A/C>	17,044,279	16.00
Mr Hamish Andrew Jolly <Jolly Family A/C>	17,044,279	16.00
Scintilla Strategic Investments Limited	4,952,500	4.65
Pannard Management Pty Ltd <The PC Lushey No.1 A/C>	4,515,041	4.24
Sunset Capital Management Pty Ltd <Sunset Superfund A/C>	3,733,333	3.51
Celtic Capital Pty Ltd <The Celtic Capital No. 2 A/C>	3,300,000	3.10
Canary Capital Pty Ltd	2,075,000	1.95
Mr Christopher Richard Brown	1,887,500	1.77
Mr Alan Peter Lawson <Lawson Family A/C>	1,734,467	1.63
Montjord Investments Pty Ltd <Montjord Family A/C>	1,500,000	1.41
Cinque Terra Pty Ltd	1,000,000	0.94
Mr John Ceccon & Ms Maria Lynn McLean <MCCM Super Fund A/C>	833,334	0.78
Mr Sean Robert Muffet	800,000	0.75
Mr Joel David Webb	738,000	0.69
Mr Sean Muffet	708,500	0.67
Mr Timothy David Barnes	700,000	0.66
Mr Paul Cozzi	600,000	0.56
Shane Wee <Wee Family A/C>	575,000	0.54
ACNS Capital Markets Pty Ltd <ACNS Unit A/C>	569,837	0.54
BNP Parabis Nominees Pty Ltd <IB AU Noms Retail Client DRP>	530,000	0.50

SMART MARINE SYSTEMS LIMITED
STOCK EXCHANGE INFORMATION

3. 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
23-Nov-17	6,000,000	2	31-Dec-20	10
15-Feb-18	3,000,000	34	28-Feb-21	8
10-Apr-18	2,000,000	1	31-Dec-20	10
10-Apr-18	1,000,000	1	28-Feb-21	5
24-Apr-18	2,840,000	15	28-Feb-21	8

4. Unlisted performance rights

Grant date	Number	Number of holders	Expiry date
02-Feb-16	17,398,710	4	2-Feb-21
24-Aug-16	300,000	1	24-Aug-19

5. Substantial shareholders

The substantial shareholders in the company 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

6. 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.