SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 4D AND INTERIM REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2018

CONTENTS

Rule 4.2A.3

APPENDIX 4D

Reporting period ("current period")	**Half-year ended 31 December 2018**
Previous corresponding period	**Half-year ended 31 December 2017**

1 Results for announcement to the market

					$
1.1	Revenue from ordinary activities	down	31.04%	to	21,503
1.2	Loss from ordinary activities after tax for the period attributable to owners of the Company	down	27.70%	to	(819,225)
1.3	Total comprehensive loss for the period attributable to owners of the Company	down	27.77%	to	(818,481)

		Amount per share cents	**Franked amount per share cents**
1.4	***Dividends***		
	Final, in respect of year ended 30 June 2018	Nil	Nil
	Interim, in respect of year ending 30 June 2019	Nil	Nil
1.5	Record date for determining entitlement to dividend		N/A

1.6 Brief explanation of figures (if necessary)

During the past six months the Company has focused on the deployment of its Clever Buoy system in California, USA, which has resulted in increased travel expenses. To preserve cash, effective 1 September 2018, director's fees were either reduced or suspended and accrued, until such time the Company is in a financial position to do so.

The net loss for the consolidated entity after providing for income tax amounted to $819,225 (31 December 2017: loss of $1,133,122). The loss for the period includes research and development expenses, amortisation and personnel expenses.

2 Net tangible assets

	Current period $	Previous corresponding period $
Net tangible asset backing per ordinary share	0.42	0.01

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

Name of Entity	**Date of gain of control**	**Contribution to the reporting entity's loss**
N/A		

4 Dividends

Amount per security

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

Total dividend declared on all securities in respect of the period

	Current period $	Previous corresponding period $
Ordinary securities	Nil	Nil

5 Dividend reinvestment plans

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

6 Details of associates

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

7 Accounting standards

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

8 Independent auditor's review

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

CORPORATE DIRECTORY

Directors

Craig Anderson
Hamish Jolly
David McArthur

Secretaries

David McArthur
Jordan McArthur

Registered and Principal Office

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Postal Address

PO Box 584
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Auditors

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

Bankers

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

Share Registry

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

Telephone: +61 1300 552 270

ASX Code

Shares: SM8

Legal Form of Entity

Public company

Country of Incorporation and Domicile

Australia

DIRECTORS' REPORT

The directors of Smart Marine Systems Limited (the "Company") submit the Interim Report of the Group for the half year ended 31 December 2018. In order to comply with the provisions of the *Corporations Act 2001,* the Directors' report as follows:

DIRECTORS

The names of the Directors who held office during or since the end of the interim period and until the date of this report are noted below. Directors were in office for the entire period unless otherwise stated:

Name
Executive
Craig Anderson Managing Director
Non-executive
Hamish Jolly *Chair of the Nominations and Remuneration Committee and* *Member of the Audit and Risk Management Committee*
David McArthur *Chair of the Audit and Risk Management Committee and* *Member of the Nominations and Remuneration Committee*

Executive Director and Non-Executive Director remuneration

Under an executive services agreement effective 29 January 2016, Mr Craig Anderson received executive remuneration of $250,000 p.a. plus superannuation. In view of the need to preserve cash, Mr Anderson's executive remuneration was reduced to $150,000 p.a. plus superannuation, effective from 1 September 2018.

Having regard to the cash balance, with effect from 1 September 2018, payments to non-executive directors were suspended, representing a deferral of cash payments, and the balance owing will only be paid as and when the company is in a financial position to do so.

OPERATING AND FINANCIAL REVIEW

Background

Smart Marine Systems Limited is an Australian marine technology company listed on the Australian Stock Exchange (ASX:SM8). The Company has developed and commercialised award-winning patented products. The Company's product portfolio currently includes three key areas of activity:

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

The company has continued to develop all its products and diversify into additional global markets.

OPERATING AND FINANCIAL REVIEW (continued)

Activities

Marine Monitoring and Alerting System | Clever Buoy

The Company continues to develop and commercialise the revolutionary marine monitoring platform, Clever Buoy, as a result of high levels of interest from around the globe. Following a significant increase in negative shark interactions in the United States of America, the company has undertaken significant market development work in this jurisdiction over the past 18 months. The company received endorsement in California from Federal and State Government officials in late 2017, which resulted in the Company committing to a pilot deployment at Newport Beach, southern California. The deployment at the iconic Balboa Pier on Newport Beach is the culmination of 18 months of business development work in America and is located on a very popular coastline that is highly reliant on tourism and commerce associated with the beaches and water sports.

The Clever Buoy system went live in October 2018 and has been providing real time marine life and environmental monitoring for a 450-metre span either side of the iconic California pier. The pilot component of the deployment was completed in February 2019 and the Company is currently completing formal reviews and environmental impact reports with the objective of moving towards a permanent installation and further expansion across additional sites in southern California. The Clever Buoy system in California has received significant exposure through all the mainstream American media outlets as well as site visits from local, state and federal government agencies.

The US market is a significant opportunity for the technology. The country has more than 3300 patrolled beaches with an average length of one mile, and both coastlines have experienced a rapid rise in shark attacks in recent years. Lifeguards and various authorities responsible for beach safety are desperate to find a solution to help them manage the incidences of shark attacks at their beaches. Clever Buoy offers them a turn key solution that utilizes non-invasive advance technology with real time data and alerts and there is currently no peer in the market for this product.

The exposure the Clever Buoy has received in the United States has uncovered additional functionality of the platform that has further global applications. In September 2018, the Company announced that it had entered into a Heads of Agreement with a Californian based security and surveillance company, Noice Industries. Noice Industries is a specialist surveillance and security service provider that secures critical physical infrastructure, including access control, airspace, buildings, connected devices, facilities and equipment on land and water. Noice provides its services to large infrastructure multinationals, US security agencies, US Department of Defence, Homeland Security and National Coastguard. Noice Industries identified Clever Buoy as providing a critical surveillance and monitoring solution for oceans and waterways that integrates into the specialist services the firm provides to current clients. During the pilot project in Newport, a number of these clients have undertaken a site visit to witness the capabilities of the Clever Buoy. This included representatives from the United States Under Secretary of Defence.

The Clever Buoy is now being recognised internationally as an autonomous real time information platform, capable of collecting and monitoring a wide range of marine environmental data. The buoys capability of monitoring and alerting marine life activity has been expanded to include key environmental data such as localised weather, sea conditions and pollution measurements in real time. The autonomous power, onboard processing and live communications to the cloud, permit Clever Buoy to integrate a wider range of sensors and additional hardware to cater for specialised applications. With pollution of waterways and oceans being recognized as a significant issue globally, Clever Buoy can be applied to providing real time data and analytics 24 hours a day, 7 days a week.

Shark attacks continue in Australia and the Company continues to work with local, state and federal governments on providing a viable solution. The debate is very divisive in Australia and there is a high level of political conflict between the various levels of government in funding solutions. Despite recent severe attacks in many locations around Australia, governments are reluctant to implement long term sustainable solutions that utilise technology and science.

The Company continues to receive enquiries from around the world in relation to the deployment of the Clever Buoy system. Two recent shark attacks, including one fatal in Cape Cod, Massachusetts, USA, has resulted in direct enquiry and dialogue with local officials and communities in this region. The Company formally presented to local community members and officials in early February to outline the Clever Buoy system as a solution to the popular coastline. The region is highly motivated to implement mitigation measures prior to the upcoming tourist season and the Company is working with both community groups and local authorities on implementing Clever Buoy.

OPERATING AND FINANCIAL REVIEW (continued)

The Seabin Project

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

Commercial production of Seabin's cleaning device has commenced with French manufacturer Poralu Marine. Following the success of the pilot partner program and a strong pre-sales campaign, commercial sales and installations have commenced with more than 400 installations in 23 countries so far.

The Company continues to receive accolades globally for its work and in 2018 received a Good Design Australia award for the Seabin.

Visual Technology

In May 2018 the Company announced the very promising preliminary results of a counter illumination research work that has been undertaken in partnership with Professor Nathan Hart of Macquarie University in Sydney. The company ("SMS") has been focussed on understanding the visual cues of large predatory sharks since 2012 and in 2016 commenced a research project with Professor Nathan Hart of Macquarie University in collaboration with New South Wales Department of Primary Industry, Flinders University, University of Western Australia, Oceans Research, and New South Wales Zoological Parks Board. The Australian Research Council supported project has the objective of testing the effect of specific elements of counter illumination on the behaviour of sharks.

The research is based on the integration of specific patterns and brightness of lights on the underside of seal decoys that are towed through known shark populations in the eastern cape region of South Africa, following several promising observations from anecdotal activities. Two years into a 3-year research program, the project has received a 100% success rate and has reached a statistically valid sized data set.

SMS has an exclusive option on the commercialisation rights to the Intellectual Property generated by this project and the potential applications across the whole marine sector. In the final year of the project the objective is to finalise the light characteristics and configuration that will be the core of the technology.

Financial Results

For the six months ended 31 December 2018, the Group incurred a loss after income tax of $819,225 (six months ended 31 December 2017: loss of $1,133,122).

The Group had a net cash outflow of $307,045 (six months ended 31 December 2017: outflow of $537,639).

DIVIDENDS

The directors recommend that no dividend be provided for the six months ended 31 December 2018 (six months ended 31 December 2017: Nil).

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Smart Marine Systems Limited support, and have adhered to, the principles of good corporate governance. The Group's corporate governance statement is contained in the 30 June 2018 Annual Report and can be viewed on the Company's website.

SUBSEQUENT EVENTS

Other than as disclosed in note 10, there have been no matters or circumstances that have arisen since the end of the reporting period that have affected or may affect, significantly, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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 review of the half-year report. This Independence Declaration is set out on the following page and forms part of this Directors' Report for the half year ended 31 December 2018.

Signed in accordance with a resolution of Directors.

CRAIG ANDERSON
Director

Perth, Western Australia
28 February 2019

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Smart Marine Systems Limited for the half-year ended 31 December 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 review; and

b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
28 February 2019

M R Ohm
Partner

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	31 December 2018 $	30 June 2018 $
Assets			
Cash and cash equivalents		159,927	466,642
Trade and other receivables		22,650	26,471
Inventory		26,431	29,641
Prepayments		31,826	57,385
Other current assets		15,591	13,508
Current tax assets		188,944	117,103
Total current assets		**445,369**	**710,750**
Intangible assets	5	74,698	108,374
Property, plant and equipment	6	320,089	371,279
Total non-current assets		**394,787**	**479,653**
Total assets		**840,156**	**1,190,403**
Liabilities			
Trade and other payables		112,059	125,316
Borrowings		8,609	29,264
Employee entitlements		71,201	63,124
Total current liabilities		**191,869**	**217,704**
Borrowings		35,455	39,823
Total non-current liabilities		**35,455**	**39,823**
Total liabilities		**227,324**	**257,527**
Net assets		**612,832**	**932,876**
Equity			
Issued capital	7	6,715,939	6,214,775
Reserves		740,085	957,168
Accumulated losses		(6,843,192)	(6,239,067)
Total equity attributable to equity holders of the Company		**612,832**	**932,876**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018 $	31 December 2017 $
Continuing operations			
Revenue from contracts with customers		21,503	31,183
Other income		343	31,028
Share of profit / (loss) of associate		-	3,027
		21,846	**65,238**
Expenses			
Cost of sales		(2,561)	(8,960)
Other operating expenses		(3,427)	(15,922)
Marketing and business development		(53,400)	(179,400)
Selling and distribution expenses		(2,281)	(6,909)
Personnel expenses		(271,964)	(669,431)
General and administration		(182,528)	(85,347)
Professional fees		(133,931)	(169,502)
Depreciation and amortisation		(95,375)	(196,691)
Research and development		(165,148)	(53,031)
Finance expenses		(1,861)	(4,515)
Other losses		(435)	(5,823)
Results from operating activities		**(891,065)**	**(1,330,293)**
Loss before income tax		(891,065)	(1,330,293)
Income tax benefit	4	71,840	197,171
Loss for the period from continuing operations		**(819,225)**	**(1,133,122)**
Loss for the period		**(819,225)**	**(1,133,122)**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018 $	31 December 2017 $
Loss for the period		**(819,225)**	**(1,133,122)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference of foreign operations		744	(27)
Total items that may be reclassified subsequently to profit or loss		**744**	**(27)**
Total comprehensive loss for the period		**(818,481)**	**(1,133,149)**
Loss attributable to owners of the Company		**(819,225)**	**(1,133,122)**
Total comprehensive loss attributable to owners of the Company		**(818,481)**	**(1,133,149)**
Loss per share			
Basic and diluted loss per share (cents per share)	3	(0.73)	(1.69)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the Company				
	Share capital	**Share-based payments reserve**	**Foreign currency Translation reserve**	**Accumulated losses**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 July 2018	6,214,775	956,274	894	(6,239,067)	**932,876**
Total comprehensive loss for the period	-	-	-	(819,225)	**(819,225)**
Other comprehensive income					
Foreign exchange translation difference on foreign operations	-	-	744	-	**744**
Total comprehensive income	**-**	**-**	**744**	**-**	**744**
Total comprehensive loss for the period	**-**	**-**	**744**	**(819,225)**	**(818,481)**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares	538,750	-	-	-	**538,750**
Transfer to accumulated losses on lapse of options	-	(215,100)	-	215,100	**-**
Cancellation of unvested options	-	(22,168)	-	-	**(22,168)**
Share-based payment transaction	-	19,441	-	-	**19,441**
Capital raising costs	(37,586)	-	-	-	**(37,586)**
Total contributions by and distributions to owners	**501,164**	**(217,827)**	**-**	**215,100**	**498,437**
Total transactions with owners	**501,164**	**(217,827)**	**-**	**215,100**	**498,437**
Balance at 31 December 2018	**6,715,939**	**738,447**	**1,638**	**(6,843,192)**	**612,832**

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	31 December 2018 $	31 December 2017 $
Cash flows from operating activities		
Receipts from customers	27,060	58,475
Cash paid to suppliers and employees	(597,788)	(843,633)
Interest paid	(1,861)	(2,857)
Interest received	343	3,509
Payments for research and development	(170,430)	(53,031)
Income taxes paid	-	260,743
Net cash used in operating activities	**(742,676)**	**(576,794)**
Cash flows from investing activities		
Payments for capitalised research and development	-	(1,976)
Payments for plant and equipment	(10,509)	(7,020)
Repayment of loans to associate	-	16,034
Net cash (used in) / from investing activities	**(10,509)**	**7,038**
Cash flows from financing activities		
Proceeds from issue of share capital	508,750	-
Proceeds from borrowings	-	50,000
Payment of capital raising costs	(37,586)	-
Repayment of borrowings	(25,024)	(17,883)
Net cash from financing activities	**446,140**	**32,117**
Net decrease in cash and cash equivalents	(307,045)	(537,639)
Cash and cash equivalents at 1 July	466,642	624,251
Effect of exchange rate fluctuations on cash held	330	(24)
Cash and cash equivalents at 31 December	**159,927**	**86,588**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of Preparation

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

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

The interim financial statements do not include the full disclosures of the type normally included in the full financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report. It is recommended that the interim financial statements be read in conjunction with the full financial report for the year ended 30 June 2018 and any public announcements made by Smart Marine Systems Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding half year except for the impact of the new Standards and Interpretations effective 1 July 2018 disclosed in note 1.4. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

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

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

1.2 Statement of Compliance

The interim financial statements were approved by the Board of Directors on 28 February 2019.

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

1.3 Significant Accounting Judgements and Estimates

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

The judgements, estimates and assumptions applied to the interim financial statements, including the key sources of estimation uncertainty were the same as those that applied to the Group's last annual financial report for the year ended 30 June 2018, except for the impact of the new Standards and Interpretations effective 1 July 2018 as disclosed in note 1.4.

1.4 Application of New and Revised Standards

Standards and Interpretations applicable to 31 December 2018

In the period ended 31 December 2018, the Directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current reporting periods beginning on or after 1 July 2018.

As a result of this review, the Group has initially applied AASB 9 and AASB 15 from 1 July 2018.

Due to the transition methods chosen by the Group in applying AASB 9 and AASB 15, comparative information throughout the interim financial statements has not been restated to reflect the requirements of the new standards.

AASB 9 *Financial Instruments*
AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and makes changes to some areas including classification of financial instruments, measurement, impairment of financial assets and hedge accounting models.

Financial instruments are classified as either held at amortised cost or fair value.

Financial instruments are carried at amortised cost if the business model concept can be satisfied.

All equity instruments are carried at fair value and the cost exemption under AASB 139 which was used where it was not possible to reliably measure the fair value of an unlisted entity has been removed. Equity instruments which are non-derivative and not held for trading may be designated as fair value through other comprehensive income (FVOCI). Previously classified available-for-sale investments now carried at fair value are exempt from impairment testing and gains or loss on sale are no longer recognised in profit or loss.

The AASB 9 impairment model is based on expected loss at day 1 rather than needing evidence of an incurred loss, this is likely to cause earlier recognition of bad debt expenses. Most financial instruments held at fair value are exempt from impairment testing.

The Group has applied AASB 9 retrospectively with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018 and has elected not to restate comparative information. Accordingly, the information presented for 31 December 2017 and 30 June 2018 has not been restated.

There is no material impact to profit or loss or net assets on adoption of this new standard in the current or comparative years.

AASB 15 *Revenue from Contracts with Customers*
AASB 15 replaces AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations, Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The Group has adopted AASB 15 using the modified retrospective method of adoption (without practical expedients) with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018. Accordingly, the information presented for 31 December 2017 and 30 June 2018 has not been restated.

There is no material impact to profit or loss or net assets on adoption of this new standard in the current or comparative years.

1.4 Application of New and Revised Standards

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all the new and revised Standards and Interpretations in issue not yet adopted for the half-year ended 31 December 2018.

As a result of this review the Directors have determined that AASB16 may have a material effect on the application in future periods.

AASB 16 replaces AASB 117 *Leases* and related interpretations.

AASB 16 removes the classification of leases as either operating leases or finance leases for lessees effectively treating all leases as finance leases. Most leases will be capitalised on the statement of financial position by recognising a lease liability for the present value obligation and a 'right of use' asset. The right of use asset is calculated based on the lease liability plus initial direct costs, prepaid lease payments and estimated restoration costs less lease incentives received. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in the expense recognition with interest and depreciation replacing operating lease expense. There are exemptions for short-term leases and leases of low-value items.

Lessor accounting remains similar to current practice, i.e. lessors continue to classify leases as finance and operating leases.

This standard will primarily affect the accounting for the Group's operating lease commitments predominately relating to office leases which due to its low-value would be exempt from this standard.

AASB 16 is effective from annual reporting periods beginning on or after 1 January 2019. A lessee can choose to apply the Standard using a full retrospective or modified retrospective approach.

Other than the above, 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 accounting policies.

1.5 Going Concern

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business.

Notwithstanding the fact that the Group incurred a loss of $891,065 for the period ended 31 December 2018, had an available cash balance of $159,927, and a net cash outflow from operating activities amounting to $742,676, the Directors are of the opinion that the Company is a going concern for the following reasons:

The Company has been working with Orange County, California State and US Federal Congress officials on an integrated shark management plan that includes installation expansion of the Clever Buoy systems, initially at Balboa Pier, Newport Beach and further beaches along their coastline. A three-month trial of the Clever Buoy system went live at Balboa Pier in October 2018 and has been providing real time marine life and environmental monitoring for a 450-metres span either side of the iconic California pier. A formal review and environmental impact report will be completed in February 2019 in anticipation of moving towards a permanent installation and further expansion across additional sites in southern California.

With effect from 1 September 2018, the payment of non-executive directors' fees of $30,000 per annum was suspended, with the balance owing to accrue and be paid as and when the Company is in a financial position to do so.

Effective the same date, the Managing Director's fees were reduced from $250,000 per annum to $150,000 per annum. Should the permanent installation and further expansion of Clever Buoy as disclosed above be successful, the fees will be reinstated without back pay.

1.5 Going Concern (continued)

The Company is eligible for R&D and EMDG government grants. At the date of this report, the R&D grant is estimated to be $296,000 and receivable in March 2019. The Company is also able to borrow funds from Broadway Management, a company associated with David McArthur (a director of the Company).

On 28 February 2019, the Company signed a binding term sheet to acquire 100% of Evolution Subsea Pty Ltd, subject to shareholder approval (refer note 10). If the acquisition is approved, the Company will seek to raise up to $2.5 million, subject to shareholder approval.

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

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

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

2 SEGMENT REPORTING

AASB8 *Operating* Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance.

The Group's operating segments have been determined with reference to the management accounts used by the Chief Operating Decision maker to make decisions regarding the Group's operations and allocation of working capital. Due to the size and nature of the Group, the Board as a whole, has been determined as the Chief Operating Decision Maker.

The Group currently operates in two distinct segments:

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

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

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

The accounting policies of the reportable segments are the same as Group accounting policies.

2 SEGMENT REPORTING (continued)

Segment assets and liabilities

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

	Assets		Liabilities	
	31 Dec 2018 $	30 Jun 2018 $	31 Dec 2018 $	30 Jun 2018 $
SAMS visual technology	26,430	3,329	(110)	(54,159)
Clever Buoy shark detection technology	358,382	459,296	(24,371)	(121,636)
Total segment assets and liabilities	384,812	462,625	(24,481)	(175,795)
Corporate and other segment assets/liabilities	455,344	727,778	(202,843)	(81,732)
Total	840,156	1,190,403	(227,324)	(257,527)

Segment revenue and results

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

	Revenue [1]		Segment profit/(loss)	
	31 Dec 2018 $	31 Dec 2017 $	31 Dec 2018 $	31 Dec 2017 $
SAMS visual deterrent technology	21,503	31,183	(30,604)	(175,661)
Clever Buoy shark detection technology	-	-	(478,631)	(240,173)
Total for continuing operations	**21,503**	**31,183**	**(509,235)**	**(415,834)**
Share of profits of associate			-	3,027
Finance income			343	2,834
Central and administration expenses			(380,312)	(915,805)
Finance expense			(1,861)	(4,515)
Loss before tax			**(891,065)**	**(1,330,293)**

(1) Segment revenues represent revenue generated from external customers. There were no inter-segment revenues in the current period.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2018.

3 LOSS PER SHARE

Basic and diluted loss per share

		31 December 2018	31 December 2017
Basic and diluted loss per share *	**(cents)**	(0.73)	(1.69)
Loss used in the calculation of basic and diluted loss per share	**$**	(819,225)	(1,127,129)

Weighted average number of ordinary shares

The weighted average number of shares for the purposes of the calculation of diluted loss per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic loss per share as follows:

	31 December 2018 Number	31 December 2017 Number
Weighted average number of ordinary shares for the purpose of basic loss per share	112,524,407	66,889,253
Shares deemed to be issued for no consideration in respect of:		
Options *	33,648,336	18,525,000
Performance shares *	17,698,710	17,698,710
Weighted average number of ordinary shares for the purpose of diluted loss per share	112,524,407	66,889,253

* The options and performance shares were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

4 INCOME TAX EXPENSE

4.1 Amounts recognised in profit or loss

	31 December 2018 $	31 December 2017 $
Current tax benefit		
Current tax	71,840	23,069
Over-provision in prior year	-	174,102
Total income tax benefit	**71,840**	**197,171**

4 INCOME TAX EXPENSE

4.2 Reconciliation of effective tax rate

	31 December 2018 $	31 December 2017 $
Loss for the period	(819,225)	(1,133,122)
Total income tax benefit	(71,840)	(197,171)
Loss excluding income tax	**(891,065)**	**(1,330,293)**
Income tax at the Australian tax rate of 27.5% (2017: 27.5%)	(245,043)	(365,831)
Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:		
Entertainment	317	816
Share-based payments	(750)	78,684
Research and development benefit	(26,424)	(8,485)
Share of loss of associate	-	(832)
Difference in foreign income tax rates	49	(392)
Other permanent differences	45,876	1,829
Under / (over) provision in prior years	-	(174,102)
Deferred tax assets not brought to account	154,135	271,142
	(71,840)	**(197,171)**

4.3 Recognised deferred tax assets and liabilities

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

	31 December 2018 $	30 June 2018 $
Deferred tax liabilities (DTLs)		
Prepayments	-	15,781
Research and development	-	14,253
	-	**30,034**
Off-set of deferred tax assets	-	(30,034)
Net deferred tax liability recognised	**-**	**-**
Deferred tax assets (DTAs)		
Other temporary differences	**-**	**-**

5 INTANGIBLE ASSETS

	SAMS Patents	SAMS Trademarks	Clever Buoy Patents	Clever Buoy Trademarks	Clever Buoy Development	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance at 1 July 2017	-	-	9,900	850	807,251	**819,254**
Additions	1,765	650	-	-	780	**3,195**
Impairment	(1,765)	(650)	-	-	-	**(2,415)**
Balance at 30 June 2018	-	-	9,900	850	808,031	**820,034**
Additions	-	-	-	-	-	**-**
Impairment	-	-	-	-	-	**-**
Balance at 31 December 2018	**-**	**-**	**9,900**	**850**	**808,031**	**820,034**
Amortisation						
Balance at 1 July 2017	-	-	-	-	516,051	**517,304**
Amortisation for the period	-	-	223	-	194,133	**194,356**
Impairment	-	-	-	-	-	**-**
Balance at 30 June 2018	**-**	**-**	**223**	**-**	**710,184**	**711,660**
Amortisation for the period	-	-	1,054	-	32,622	**33,676**
Balance at 31 December 2018	**-**	**-**	**1,277**	**-**	**742,806**	**745,336**
Carrying amounts						
Balance at 30 June 2018	-	-	9,677	850	97,847	**108,374**
Balance at 31 December 2018	-	-	8,623	850	65,225	**74,698**

6 PROPERTY, PLANT AND EQUIPMENT

	Plant & equipment	Fixtures & fittings	Computer equipment	Motor vehicles	Software	Leasehold improvements	Construction In progress	Total
	$	$	$	$	$	$	$	$
Gross carrying amount								
Balance at 1 July 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**
Disposals	(569)	-	-	-	-	-	-	**(569)**
Transfers between categories	-	-	-	-	7,454	-	(7,454)	**-**
Balance at 30 June 2018	**440,235**	**37,545**	**20,342**	**102,909**	**112,852**	**10,731**	**-**	**724,614**
Additions	10,509	-	-	-	-	-	-	**10,509**
Balance at 31 December 2018	**450,744**	**37,545**	**20,342**	**102,909**	**112,852**	**10,731**	**-**	**735,123**
Depreciation								
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 1 July 2018	**241,231**	**7,663**	**13,021**	**22,491**	**61,147**	**7,782**	**-**	**353,335**
Depreciation for the period	41,860	1,561	1,845	6,055	10,081	297	-	**61,699**
Balance at 31 December 2018	**283,091**	**9,224**	**14,866**	**28,546**	**71,228**	**8,079**	**-**	**415,034**
Carrying amounts								
Balance at 30 June 2018	199,004	29,882	7,321	80,418	51,705	2,949	-	**371,279**
Balance at 31 December 2018	167,653	28,321	5,476	74,363	41,624	2,652	-	**320,089**

7 ISSUED CAPITAL

Share capital

	Ordinary shares			
	Number of shares		Amount in $	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
On issue at 1 July	**106,505,929**	**66,889,253**	**6,214,775**	**5,142,917**
Shares issued and expensed during the period:				
Issue of fully paid shares for cash	20,350,000	36,416,676	508,750	1,092,500
Issue of fully paid shares in lieu of consultancy fees	1,200,000	3,200,000	30,000	96,000
Capital raising costs	-	-	(37,586)	(116,642)
On issue at 31 December	**128,055,929**	**106,505,929**	**6,715,939**	**6,214,775**

8 SHARE-BASED PAYMENT PLANS

The following share-based payment arrangements were entered into during the period:

Number	Grant date	Vesting date	Expiry date	Exercise Price (cents)	Fair value at grant date (cents)
1,000,000	22-Nov-18	22-Nov-18	28-Nov-21	5	1.02
1,000,000	22-Nov-18	22-Nov-19	29-Nov-21	8	0.80
1,000,000	22-Nov-18	21-Nov-20	30-Nov-21	12	0.62

The fair value of the equity-settled share options granted is estimated at the date of grant using the Black-Scholes model taking into account the terms and conditions upon which the options were granted. The key valuation assumptions made at valuation date are summarised below:

	Tranche 10	Tranche 11	Tranche 12
Exercise price (cents)	5	8	12
Grant date	22-Nov-18	22-Nov-18	22-Nov-18
Expiry date	28-Nov-21	29-Nov-21	30-Nov-21
Life of the options (years)	3.02	3.02	3.02
Volatility	95.79%	95.79%	95.79%
Risk free rate	1.81%	1.81%	1.81%

8 SHARE-BASED PAYMENT PLANS (continued)

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

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

During the period ended 31 December 2018, 3,500,000 options were forfeited. No options expired.

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

9 FINANCIAL INSTRUMENTS

Fair value measurement

This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

Measured at fair value on recurring basis

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).

At the reporting date, there were no financial assets or financial liabilities measured at fair value.

Not measured at fair value

The Group has various financial instruments which are not measured at fair value in the statement of financial position.

The Directors consider that the carrying amounts of current receivables, current payables and current borrowings are a reasonable approximation to their fair values.

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

10 SIGNIFICANT EVENTS AFTER BALANCE DATE

On 28 February 2019, the Company entered into a binding term sheet to acquire 100% of Evolution Subsea Pty Ltd, trading as Harvest Technology. Harvest is a bespoke services and solutions provider in the subsea inspection maintenance and repair sector. The consideration for the acquisition will be the issue of 15,000,000 fully paid ordinary shares at 2.2 cents per share, plus the issue of up to 80,000,000 Performance Rights with vesting criteria based on achieving key revenue hurdles. The issue of the shares and performance rights are subject to shareholder approval. The acquisition is subject to the completion of satisfactory due diligence by the Company.

The Company also announced its intention to raise up to $2.5 million by way of a placement for $1.8 million at 2.2 cents per share (subject to shareholder approval) plus a rights issue to raise up to $700,000 at 2.2 cents per share. The rights issue is not underwritten however, the Company reserves the right to appoint an underwriter.

No other matters or circumstances have arisen since the end of the reporting period and the date of this report which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the of the Group in future financial years.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Smart Marine Systems Limited (the 'Company'):

   (a) the accompanying interim financial statements and notes are in accordance with the *Corporations Act 2001* including:

      (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year then ended; and

      (ii) complying with Australian Accounting standards, the *Corporations Regulations 2001,* professional reporting requirements and other mandatory requirements.

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

   (c) the interim financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 303(5) of the *Corporations Act 2001* for the half-year ended 31 December 2018.

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

CRAIG ANDERSON
Director

Dated this 28th day of February 2019

INDEPENDENT AUDITOR'S REVIEW REPORT
To the members of Smart Marine Systems Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying interim financial report of Smart Marine Systems Limited ("the company") which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter - material uncertainty related to going concern

We draw attention to Note 1.5 in the interim financial report, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations*

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2001. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R Ohm
Partner

Perth, Western Australia
28 February 2019