

Announcement to ASX

25 October 2019

Dispatch of 2019 Annual Report and Notice of AGM

Smart Marine Systems Limited (**ASX:SM8**) is pleased to attach a copy of the 2019 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form which have been dispatched to shareholders.

On 10 October 2019, the Company announced the acquisition of a 100% interest in Advanced Offshore Streaming Pty Ltd. Part of the consideration for the acquisition is the issue of \$1,500,000 in Deferred Consideration Shares, on terms contained in the announcement. The company advises that it has not sought a waiver from the ASX for the issue of the Deferred Consideration Shares up to 3 years after completion of the acquisition, and as such, approval for the issue of these shares will be sought closer to the date of the required issue of the shares.

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

On behalf of the Board

David McArthur
Company Secretary

1st Floor, 31 Cliff Street,
Fremantle, Western Australia 6160
E: enquiry@smartmarinesystems.com
P: +61 1300 524 392
ABN: 77 149 970 445

www.smartmarinesystems.com



**SMART MARINE SYSTEMS LIMITED
ACN 149 970 445**

NOTICE OF ANNUAL GENERAL MEETING

**The Annual General Meeting of the Company will be held at
Level 4, 130 Stirling Street, Perth, Western Australia on
Thursday, 28 November 2019 at 2:00pm (WST).**

The Notice of Annual General Meeting should be read in its entirety. If Shareholders are in doubt as to how to vote, they should seek advice from their accountant, solicitor or other professional advisor prior to voting.

Should you wish to discuss any matter, please do not hesitate to contact either Joint Company Secretary by telephone on (08) 9435 3200.

Shareholders are urged to attend or vote by lodging the proxy form attached to the Notice

SMART MARINE SYSTEMS LIMITED

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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 Level 4, 130 Stirling Street, Perth, Western Australia on Thursday, 28 November 2019 at 2:00pm (WST) (**Meeting**).

The Explanatory Memorandum provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of the Notice.

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 as Shareholders on Tuesday, 26 November 2019 at 5:00pm (WST).

Terms and abbreviations used in the Notice are defined in Schedule 1.

AGENDA

Annual Report

To consider the Annual Report of the Company and its controlled entities for the financial year ended 30 June 2019, which includes the Financial Report, the Directors' Report and the Auditor's Report.

1. Resolution 1 - Remuneration Report

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

"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report be adopted by Shareholders on the terms and conditions in the Explanatory Memorandum."

Voting Prohibition

In accordance with sections 250BD and 250R of the Corporations Act, a vote on this Resolution must not be cast (in any capacity) by or on behalf of a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report, or a Closely Related Party of such a member.

A vote may be cast by such person if the vote is not cast on behalf of a person who is excluded from voting on this Resolution, and:

- (a) the person is appointed as a proxy by writing that specifies the way the proxy is to vote on this Resolution; or
- (b) the voter is the Chair and the appointment of the Chair as proxy does not specify the way the proxy is to vote on this Resolution, but expressly authorises the Chair to exercise the proxy even if this Resolution is connected with the remuneration of a member of the Key Management Personnel.

2. Resolution 2 - Election of Director - Mr Rod Evans

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

"That, in accordance with Clause 14.4 of the Constitution, Listing Rule 14.4 and for all other purposes, Mr Rod Evans, a Director who was appointed on 15 May 2019, retires and, being eligible, is elected as a Director on the terms and conditions in the Explanatory Memorandum."

3. Resolution 3 - Election of Director - Mr Paul Guilfoyle

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

"That, in accordance with Clause 14.4 of the Constitution, Listing Rule 14.4 and for all other purposes, Mr Paul Guilfoyle, a Director who was appointed on 27 June 2019, retires and, being eligible, is elected as a Director on the terms and conditions in the Explanatory Memorandum."

4. Resolution 4 - Election of Director - Mr Marcus Machin

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

"That, in accordance with Clause 14.4 of the Constitution, Listing Rule 14.4 and for all other purposes, Mr Marcus Machin, a Director who was appointed on 3 September 2019, retires and, being eligible, is elected as a Director on the terms and conditions in the Explanatory Memorandum."

5. Resolution 5 - Ratification of prior issue of Consultant Shares

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

"That, pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 750,000 Shares to Alto Capital (or its nominees) on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of Alto Capital (and its nominees) or any of their respective associates.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chair 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.

6. Resolution 6 - Ratification of prior issue of Placement Shares

To consider and, if thought fit, to pass with or without amendment, each as a separate ordinary resolution the following:

"That, pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the following issues of Placement Shares at \$0.022 per Share:

- (a) 37,815,951 Shares under Listing Rule 7.1; and
- (b) 12,184,049 Shares under Listing Rule 7.1A,

on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast in favour of these Resolutions by or on behalf of any person who participated in the issue of the Placement Shares, or any of their respective associates.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chair 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.

7. Resolution 7 - Approval to issue Convertible Notes to Schaffer

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

"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to a total of 2,000,000 Convertible Notes (and the issue of Shares on conversion of those Convertible Notes) to Schaffer Corporation Limited (or its nominees) on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of Schaffer Corporation Limited (and its nominees) and any person who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a Shareholder), or any of their respective associates.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chair 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.

8. Resolution 8 - Approval to issue Convertible Notes to Gangus

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

"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to a total of 2,000,000 Convertible Notes (and the issue of Shares on conversion of those Convertible Notes) to Gangus Pty Ltd ATF The JIG Family Trust (or its respective nominees) on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of Gangus Pty Ltd as trustee for The JIG Family Trust (and its nominees) and any person who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a Shareholder), or any of their respective associates.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chair 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.

9. Resolution 9 - Approval of Employee Securities Incentive Plan

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

"That, pursuant to and in accordance with exception 9(b) of Listing Rule 7.2 and for all other purposes, Shareholders approve the establishment of the employee incentive scheme of the Company known as the "Smart Marine Systems Limited Employee Securities Incentive Plan" and the issue of Securities under that plan, on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of any Director (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) or any of their respective associates.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chair 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.

10. Resolution 10 - Approval of 10% Placement Facility

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

"That, pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities totalling up to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of any persons who are expected to participate in, or who will obtain a material benefit as a result of, an issue under the 10% Placement Facility (except a benefit solely by reason of being a holder of Shares) or any associate of those persons.

However, the Company need not disregard a vote if:

- (a) 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
- (b) it is cast by the Chair 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.

11. Resolution 11 - Replacement of Constitution

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

"That, pursuant to and in accordance with section 136(2) of the Corporations Act and for all other purposes, approval is given for the Company to repeal its existing Constitution and adopt a new constitution in its place in the form of the document tabled at the Meeting and signed by the Chair for the purposes of identification, with effect from the close of the Meeting."

BY ORDER OF THE BOARD

D M McArthur
Joint Company Secretary
Smart Marine Systems Limited
Dated: 14 October 2019

SMART MARINE SYSTEMS LIMITED

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EXPLANATORY MEMORANDUM

1. Introduction

The Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held at Level 4, 130 Stirling Street, Perth, Western Australia on Thursday, 28 November 2019 at 2:00pm (WST).

The Explanatory Memorandum forms part of the Notice which should be read in its entirety and contains the terms and conditions on which the Resolutions will be voted.

The Explanatory Memorandum includes the following information to assist Shareholders in deciding how to vote on the Resolutions:

Section 2	Action to be taken by Shareholders
Section 3	Annual Report
Section 4	Resolution 1 - Remuneration Report
Section 5	Resolutions 2 to 4 (inclusive) - Election of Directors - Messrs Evans, Guilfoyle and Machin
Section 6	Resolution 5 - Ratification of prior issue of Consultant Shares
Section 7	Resolution 6 - Ratification of prior issue of Placement Shares
Section 8	Resolutions 7 and 8 - Approval to issue Convertible Notes to Schaffer and Gangus
Section 9	Resolution 9 - Approval of Employee Securities Incentive Plan
Section 10	Resolution 10 - Approval of 10% Placement Facility
Section 11	Resolution 11 - Replacement of Constitution
Schedule 1	Definitions
Schedule 2	Securities issued in the previous 12 months
Schedule 3	Summary of Employee Securities Incentive Plan
Schedule 4	Valuation of November 2021 Incentive Options

A Proxy Form is located at the end of the Explanatory Memorandum.

2. Action to be taken by Shareholders

Shareholders should read the Notice including the Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

2.1 Voting in person

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

2.2 Proxies

(a) Voting by proxy

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a 'proxy') to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions thereon. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

Please note that:

- (i) a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy;
- (ii) a proxy need not be a member of the Company; and
- (iii) a member of the Company 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, but where the proportion or number is not specified, each proxy may exercise half of the votes.

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

(b) Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- (i) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);
- (ii) if the proxy has 2 or more appointments that specify different ways to vote on the resolution - the proxy must not vote on a show of hands;
- (iii) if the proxy is the chair of the meeting at which the resolution is voted on - the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- (iv) if the proxy is not the chair - the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

- (c) Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- (i) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
- (ii) the appointed proxy is not the chair of the meeting;
- (iii) at the meeting, a poll is duly demanded on the resolution; and
- (iv) either the proxy is not recorded as attending the meeting or the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

2.3 Voting Prohibition by Proxy Holders (Remuneration of Key Management Personnel)

In accordance with sections 250BD and 250R of the Corporations Act, votes on Resolution 1 must not be cast (in any capacity) by, or on behalf of:

- (a) a member of the Key Management Personnel; or
- (b) a Closely Related Party of such member.

However, a person described above may cast a vote on Resolution 1 if the vote is not cast on behalf of a person who is excluded from voting on the relevant Resolution and:

- (a) the person is appointed as proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (b) the person is the Chair and the appointment of the Chair as proxy does not specify the way the proxy is to vote on the resolution, but expressly authorises the Chair to exercise the proxy even if the Resolution is connected with the remuneration of a member of the Key Management Personnel.

2.4 Chair's voting intentions

The Chair intends to exercise all available proxies in favour of all Resolutions, unless the Shareholder has expressly indicated a different voting intention.

If the Chair is appointed as your proxy and you have not specified the way the Chair is to vote on Resolution 1 by signing and returning the Proxy Form, you are considered to have provided the Chair with an express authorisation for the Chair to vote the proxy in accordance with the Chair's intention, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

3. Annual Report

In accordance with section 317 of the Corporations Act, Shareholders will be offered the opportunity to discuss the Annual Report, including the Financial Report, the Directors' Report and the Auditor's Report for the financial year ended 30 June 2019.

There is no requirement for Shareholders to approve the Annual Report.

At the Meeting, Shareholders will be offered the opportunity to:

- (a) discuss the Annual Report which is available online on the Company's ASX platform (ASX:SM8) and on its website (www.smartmarinesystems.com);
- (b) ask questions about, or comment on, the management of the Company; and
- (c) ask the auditor questions about the conduct of the audit and the preparation and content of the Auditor's Report.

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 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 to the Company Secretary at the Company's registered office.

4. Resolution 1 - Remuneration Report

In accordance with subsection 250R(2) of the Corporations Act, the Company must put the Remuneration Report to the vote of Shareholders. The Directors' Report contains the Remuneration Report which sets out the remuneration policy for the Company and the remuneration arrangements in place for the executive Directors, specified executives and non-executive Directors.

In accordance with subsection 250R(3) of the Corporations Act, Resolution 1 is advisory only and does not bind the Directors. If Resolution 1 is not passed, the Directors will not be required to alter any of the arrangements in the Remuneration Report.

If the Company's Remuneration Report receives a 'no' vote of 25% or more (**Strike**) at two consecutive annual general meetings, Shareholders will have the opportunity to remove the whole Board, except the managing director (if any).

Where a resolution on the Remuneration Report receives a Strike at two consecutive annual general meetings, the Company will be required to put to Shareholders at the second annual general meeting a resolution on whether another meeting should be held (within 90 days) at which all Directors (other than the managing director, if any) who were in office at the date of approval of the applicable Directors' Report must stand for re-election.

The Company's Remuneration Report did not receive a Strike at the 2018 annual general meeting. If the Remuneration Report receives a Strike at this Meeting, Shareholders should be aware that if a second Strike is received at the 2020 annual general meeting, this may result in the re-election of the Board.

The Chair will allow a reasonable opportunity for Shareholders as a whole to ask about, or make comments on the Remuneration Report.

Resolution 1 is an ordinary resolution.

5. Resolutions 2 to 4 (inclusive) - Election of Directors - Messrs Evans, Guilfoyle and Machin

5.1 General

Clause 14.4 of the Constitution allows the Directors to appoint at any time a person to be a Director either to fill a casual vacancy or as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Constitution. Any Director so appointed holds office until the conclusion of the next annual general meeting of the Company and is then eligible for election by Shareholders at that meeting.

In addition, Listing Rule 14.4 provides that a Director appointed as an addition to the Board must not hold office (without re-election) past the next annual general meeting.

Messrs Rod Evans and Marcus Machin were appointed as Non-Executive Directors of the Company on 15 May 2019 and 3 September 2019 respectively. Mr Paul Guilfoyle was appointed as an Executive Director of the Company on 27 June 2019 and was subsequently appointed as Managing Director on 3 September 2019.

Accordingly, Messrs Evans, Guilfoyle and Machin resign as Directors at the Meeting and, being eligible, seek approval to be elected as Directors pursuant to Resolutions 2 to 4 (inclusive).

5.2 Mr Rod Evans

Mr Evans is an experienced company director and has been involved in successful start-ups, turnarounds and business growth across small, medium and largescale businesses. Mr Evans currently chairs the boards of Cranecorp Australia, a crane services business; and Ashburton Assurance Australasia, a quality assurance audit business. He has held previous board positions in civil, financial services, water supply, venture capital and community not-for-profit. Mr Evans has previously held senior roles in strategy and investment across a number of companies and government agencies, including Alinta Limited when it was a top 50 ASX company, and as head of the resource sector investment attraction program for the Western Australian Government. He was also a former senior executive with Neptune Marine Services Limited, and has experience working in the oil and gas subsea market.

If elected, the Board considers Mr Evans to be an independent Director.

Resolution 2 is an ordinary resolution.

The Board (other than Mr Evans) recommends that Shareholders vote in favour of Resolution 2.

5.3 Mr Paul Guilfoyle

Mr Guilfoyle has significant experience and expertise within the marine industry and is well regarded as a leader in his field, with strengths in operational planning and execution. Having been involved in senior roles for a number of marine companies during his career, Mr Guilfoyle has a proven track record for growing marine businesses with an emphasis on partnering with key industry contacts.

If elected, Mr Guilfoyle will continue as Managing Director and as such will not be considered independent.

Resolution 3 is an ordinary resolution.

The Board (other than Mr Guilfoyle) recommends that Shareholders vote in favour of Resolution 3.

5.4 Mr Marcus Machin

A law graduate from Cambridge University, Mr Machin has extensive international experience in finance, shipping and oil and gas. Based in Dubai for the past 25 years, initially as the Finance Director for a major regional participant in oil services, engineering, vessel-owning and investment, Mr Machin established arabCapital in 2000 as a corporate finance and advisory practice focused primarily on the international shipping and oil services sectors. Since 2000, arabCapital has worked in association with the Tufton Oceanic Finance Group (**Tufton**) London, a finance house focused on shipping and oil services, and together with Tufton has concluded over US\$1.0b of institutional investments in managed investment fund vehicles.

If elected, Mr Machin will continue as a Non-Executive Director and will not be considered independent due to his performance-based security holdings in the Company.

Resolution 4 is an ordinary resolution.

The Board (other than Mr Machin) recommends that Shareholders vote in favour of Resolution 4.

6. Resolution 5 - Ratification of prior issue of Consultant Shares

6.1 General

On 8 May 2019, the Company issued Alto Capital (**Consultant**) (or its nominees) 750,000 Shares as partial consideration for corporate advisory services provided by the Consultant to the Company in connection with the acquisition of Harvest Technology Pty Ltd and the capital raising conducted in May 2019 (**Consultant Shares**).

The Consultant Shares were issued within the 15% annual limit permitted under Listing Rule 7.1, without the need for Shareholder approval.

Resolution 5 seeks the approval of Shareholders pursuant to Listing Rule 7.4 to ratify the issue of the Consultant Shares.

Resolution 5 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 5.

6.2 Listing Rules 7.1 and 7.4

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more Equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

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

The effect of Shareholders passing Resolution 5 will be to restore the Company's ability to issue further Equity Securities, to the extent of 750,000 Equity Securities, during the next 12 months without the requirement to obtain prior Shareholder approval.

6.3 Specific information required by Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Consultant Shares:

- (a) a total of 750,000 Consultant Shares were issued;
- (b) the Consultant Shares were issued for nil cash consideration, as part consideration for corporate advisory services provided by the Consultant to the Company in connection with the acquisition of Harvest Technology Pty Ltd and the capital raising conducted in May 2019;
- (c) the Consultant Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue;
- (d) the Consultant Shares were issued to the Consultant (or its nominees), none of whom is a related party of the Company;
- (e) no funds were raised from the issue of the Consultant Shares as the Consultant Shares were issued as part consideration for corporate advisory services provided to the Company; and
- (f) a voting exclusion statement is included in the Notice.

7. Resolution 6 - Ratification of prior issue of Placement Shares

7.1 General

On 2 July 2019, the Company announced that it had successfully completed a placement to raise \$1.1 million before costs (**Placement**) for working capital purposes by the issue of Shares at \$0.022 each (**Placement Shares**).

A total of 50 million Placement Shares were issued on 2 July 2019 to sophisticated investors using the Company's placement capacity under Listing Rules 7.1 and 7.1A.

Resolutions 6(a) and (b) seek the approval of Shareholders pursuant to Listing Rule 7.4 to ratify the issue the Placement Shares.

Resolutions 6(a) and (b) are ordinary resolutions.

The Board recommends that Shareholders vote in favour of Resolutions 6(a) and (b).

7.2 Listing Rules 7.1, 7.1A and 7.4

A summary of Listing Rule 7.1 is contained in Section 6.2 above.

Listing Rule 7.1A provides that an eligible entity may seek shareholder approval at its annual general meeting to allow it to issue Equity Securities comprising up to 10% of its issued capital. The Company obtained this approval at its annual general meeting held on 22 November 2018.

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

The effect of Resolutions 6(a) and (b) will be to allow the Company to retain the flexibility to issue Equity Securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 and the additional 10% annual placement capacity set out in Listing Rule 7.1A without the requirement to obtain prior Shareholder approval.

7.3 Specific information required by Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Placement Shares:

- (a) a total of 50,000,000 Placement Shares were issued on 2 July 2019 as follows:
 - (i) 37,815,951 Placement Shares were issued within the 15% annual limit permitted under Listing Rule 7.1, without the need for Shareholder approval; and
 - (ii) 12,814,049 Placement Shares were issued within the 10% limit permitted under Listing Rule 7.1A, without the need for Shareholder approval;
- (b) the Placement Shares were issued at \$0.022 per Share;
- (c) the Placement Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue;
- (d) the Placement Shares were issued to sophisticated investors (including Schaffer and Gangus), none of whom is a related party of the Company;
- (e) the proceeds from the issue of the Placement Shares were used to fund activities relating to commencement of vessel operations in Harvest Technology Pty Ltd and for general working capital purposes; and
- (f) a voting exclusion statement is included in the Notice.

8. Resolutions 7 and 8 - Approval to issue Convertible Notes to Schaffer and Gangus

8.1 General

On 10 October 2019, the Company announced that it had entered into a conditional binding agreement (**Acquisition Agreement**) to acquire 100% of the issued capital of Advanced Offshore Streaming Pty Ltd (AOS) (**Acquisition**).

Subject to completion of the Acquisition Agreement (**Completion**), the Company has agreed to pay a total of \$5 million in cash and issue up to 60,000,000 Shares (**Deferred Consideration Shares**) to the 2 shareholders of AOS, namely Jamie John Dean as trustee for The Dean Family Trust and Jaron Leigh Warburton as trustee for The Warburton Family Trust (Vendors) or their respective nominees as consideration for the Acquisition, as follows:

- (a) an initial cash payment of \$3.5 million, to be paid on Completion (Initial Cash Consideration);
- (b) further cash payments of \$750,000 each, payable:
 - (i) 12 months following Completion; and
 - (ii) 24 months following Completion,(together, Deferred Cash Consideration); and
- (c) Deferred Consideration Shares, to be issued as follows:
 - (i) that number of Shares to be issued 12 months after Completion that is the lesser of 30 million and the number calculated by dividing 750,000 by the 3-Day VWAP (**Tranche 1 Deferred Consideration Shares**); and
 - (ii) that number of Shares to be issued 36 months after Completion that is the lesser of 30 million and the number calculated by dividing 750,000 by the 3-Day VWAP (**Tranche 2 Deferred Consideration Shares**).

Payment of the Deferred Cash Consideration and the issue of the Deferred Consideration Shares are subject to each Vendor remaining employed by the Company (or its nominee) at the relevant payment date or issue date.

The Deferred Cash Consideration is expected to be funded out of the Company's existing cash reserves at the relevant payment dates (or, alternatively, the Company may need to raise further equity in the event that the Company's cash reserves are not sufficient at that time). The Company will seek shareholder approval within 3 months prior to the issue date of each of the Tranche 1 Deferred Consideration Shares and Tranche 2 Deferred Consideration Shares. In the event shareholder approval is not obtained for the Deferred Consideration Shares, the Company will be required to make cash payments of \$750,000 each to satisfy its obligations to issue the Tranche 1 Deferred Consideration Shares and Tranche 2 Deferred Consideration Shares, respectively.

The Company is proposing to raise funds of approximately \$4.52 million to fund the Initial Cash Consideration and provide additional working capital, with a total of \$4 million to be raised via the issue of convertible notes to two substantial shareholders of the Company, being Schaffer and Gangus (**Noteholders**), and approximately \$0.52 million to be raised (before costs) via an entitlement offer to eligible Shareholders.

The Company proposes to issue up to 2 million secured convertible notes with a face value of \$1.00 to each of Schaffer and Gangus to raise up to \$4 million (before costs) (**Convertible Notes**).

A summary of the material terms of the Convertible Notes is set out below:

Face Value	\$1.00 per Convertible Note
Interest	9% per annum, payable quarterly in arrears
Maturity Date	5 years from the date of issue. Upon Maturity Date, the Noteholder may elect to either convert or redeem the Convertible Notes.
Security	Repayment of the Convertible Notes will be secured by a general security granted over the assets and undertakings of the Company and its wholly owned subsidiaries, Harvest Technology Pty Ltd, Clever Buoy Australia Pty Ltd and, subject to completion of the Acquisition, AOS.
Conversion Price	\$0.022 per Share
Conversion	The Noteholders may elect to convert some or all of the Convertible Notes to Shares at the Conversion Price on or before the Maturity Date.
Redemption	If the Noteholders do not elect to convert the Convertible Notes on or before the Maturity Date, the Company must repay the face value of the Convertible Notes, together with any accrued interest, on the Maturity Date. Noteholders may also require the Company to redeem some or all of the Convertible Notes in the event of a default.
Early redemption	The Company may elect to redeem some or all of the Convertible Notes prior to the Maturity Date, subject to the Company providing the Noteholders not less than 60 days' notice of the date of such redemption (or if earlier, 60 days' notice of the Maturity Date) (Redemption Date), during which time the Noteholders may elect to convert some or all of the convertible notes up until the date that is 5 Business Days prior to the Redemption Date (in which case the Company would be unable to redeem the convertible notes that are the subject of such election).
Reconstructions	In the event there is a reconstruction of the issued capital of the Company (including a consolidation, subdivision, reduction or return), the Conversion Price and/or basis for conversion of the Convertible Notes will be reconstructed in the same proportion as the issued capital of the Company is reconstructed and in a manner which will not result in any additional benefits being conferred on the Noteholder which are not conferred on the Shareholders.
Transfer	Convertible Notes are not transferrable except with the prior written consent of the Company.
Voting rights and dividends	Convertible Notes do not confer on any Noteholder entitlement to vote at any general meeting of Shareholders or to receive dividends.

Takeover prohibition

The issue of Shares upon conversion of the Convertible Notes is subject to and conditional upon the issue not resulting in any person being in breach of section 606(1) of the Corporations Act. The Company will not be required to seek Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act to permit the issue of any Shares upon conversion of the Convertible Notes.

The Company intends to issue such Shares on any conversion of the Convertible Notes without prior Shareholder approval pursuant to Listing Rule 7.2 Exception 4.

Resolution 7 seeks the approval of Shareholders pursuant to Listing Rule 7.1 for the issue of up to 2,000,000 Convertible Notes to Schaffer. Resolution 8 seeks the approval of Shareholders pursuant to Listing Rule 7.1 for the issue of up to 2,000,000 Convertible Notes to Gangus.

Each of Resolutions 7 and 8 is an ordinary resolution. Resolutions 7 and 8 are independent resolutions and are not conditional on approval of the other (i.e. Resolution 7 is not conditional on Shareholder approval of Resolution 8, while Resolution 8 is not conditional on Shareholder approval of Resolution 7). The Company notes, however, that in the event that Shareholders do not approve Resolution 7, the Company will not be able to pay the required consideration for the Acquisition and the Acquisition will not proceed. Similarly, in the event that Shareholders do not approve Resolution 8, the Company will not be able to pay the required consideration for the Acquisition and the Acquisition will not proceed.

The Board recommends that Shareholders vote in favour of Resolutions 7 and 8.

8.2 Listing Rule 7.1

A summary of Listing Rule 7.1 is contained in Section 6.2 above.

The effect of Resolutions 7 and 8 will be to:

- (a) allow the Company to issue the Convertible Notes during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity under Listing Rule 7.1; and
- (b) pursuant to Listing Rule 7.2 Exception 4, allow the issue of Shares on conversion of Convertible Notes, without further shareholder approval and without using the Company's 15% annual placement capacity under Listing Rule 7.1.

8.3 Specific information required by Listing Rule 7.3

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to the proposed issue of the Convertible Notes:

- (a) up to a maximum of 4,000,000 Convertible Notes are to be issued;
- (b) the Convertible Notes will be issued no later than 3 months after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules);
- (c) the Convertible Notes will be issued with a face value of \$1.00 each for a total face value of up to \$4,000,000;

- (d) the Convertible Notes will be issued to Schaffer and Gangus (or their respective nominees), neither of whom is a related party of the Company;
- (e) the Convertible Notes will be issued on the terms and conditions set out in Section 8.1;
- (f) the Company intends to use the proceeds from the issue of the Convertible Notes to fund the Initial Cash Consideration payment under the terms of the Acquisition, as well as for general working capital;
- (g) it is intended that the Convertible Notes will be issued on the same date, being the date of Completion of the Acquisition; and
- (h) a voting exclusion statement is included in the Notice.

9. Resolution 9 - Approval of Employee Securities Incentive Plan

9.1 General

The Company considers that it is desirable to maintain an employee incentive scheme pursuant to which the Company can issue Equity Securities to attract, motivate and retain key Directors, employees and consultants and provide them with the opportunity to participate in the future growth of the Company.

Resolution 9 seeks Shareholders' approval for the adoption of the employee incentive scheme titled "Smart Marine Systems Limited Employee Securities Incentive Plan" (Plan) in accordance with Listing Rule 7.2 exception 9(b).

Under the Plan, the Board may offer to eligible persons the opportunity to subscribe for such number of Equity Securities in the Company as the Board may decide and on the terms set out in the rules of the Plan, a summary of the key terms and conditions of which is in Schedule 3. In addition, a copy of the Plan is available for review by Shareholders at the registered office of the Company until the date of the Meeting. A copy of the Plan can also be sent to Shareholders upon request to the Company Secretary. Shareholders are invited to contact the Company if they have any queries or concerns.

Resolution 9 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 9.

9.2 Listing Rules 7.1 and 7.2, exception 9(b)

A summary of Listing Rule 7.1 is contained in Section 6.2 above.

Listing Rule 7.2, exception 9(b) provides an exception to Listing Rule 7.1 such that issues of Equity Securities under an employee incentive scheme are exempt for a period of 3 years from the date on which shareholders approve the issue of Equity Securities under the scheme as an exception to Listing Rule 7.1.

If Resolution 9 is passed, the Company will be able to issue Equity Securities under the Plan to eligible participants over a period of 3 years without using the Company's 15% annual placement capacity under Listing Rule 7.1.

However, any future issues of Equity Securities under the Plan to a related party or a person whose relation with the Company or the related party is, in ASX's opinion, such

that approval should be obtained will require additional Shareholder approval under Listing Rule 10.14 at the relevant time.

9.3 Specific information required by Listing Rule 7.2, exception 9(b)

Pursuant to and in accordance with Listing Rule 7.2, exception 9, the following information is provided in relation to the Plan:

- (a) the material terms of the Plan are summarised in Schedule 3;
- (b) the Plan is a new employee incentive scheme and has not previously been approved by Shareholders. No Equity Securities have previously been issued under the Plan; and
- (c) a voting exclusion statement is included in the Notice.

10. Resolution 10 - Approval of 10% Placement Facility

10.1 General

Listing Rule 7.1A enables an eligible entity to issue Equity Securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting (**10% Placement Facility**). The 10% Placement Facility is in addition to the Company's 15% annual placement capacity under Listing Rule 7.1.

Resolution 10 seeks Shareholder approval by way of a special resolution to provide the Company the ability to issue Equity Securities under the 10% Placement Facility during the 10% Placement Period (refer to Section 10.2(f) below). The number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 10.2(c) below).

Resolution 10 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

The Board recommends that Shareholders vote in favour of Resolution 10.

10.2 Listing Rule 7.1A

(a) Is the Company an eligible entity?

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less.

The Company is an eligible entity as it is not included in the S&P/ASX 300 Index and has a market capitalisation of approximately \$8.93 million, based on the closing price of Shares (\$0.029) on 11 October 2019.

(b) What Equity Securities can be issued?

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the company.

As at the date of the Notice, the Company has on issue one quoted class of Equity Securities; Shares.

(c) **How many Equity Securities can be issued?**

Listing Rule 7.1A.2 provides that under the approved 10% Placement Facility, the Company may issue or agree to issue a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

Where:

A is the number of Shares on issue 12 months before the date of issue or agreement:

- (A) plus the number of fully paid Shares issued in the 12 months under an exception in Listing Rule 7.2;
- (B) plus the number of partly paid shares that became fully paid in the 12 months;
- (C) plus the number of fully paid Shares issued in the 12 months with Shareholder approval under Listing Rule 7.1 and 7.4. This does not include any issue of Shares under the Company's 15% annual placement capacity without Shareholder approval; and
- (D) less the number of fully paid Shares cancelled in the 12 months.

Note that "A" has the same meaning in Listing Rule 7.1 when calculating the Company's 15% annual placement capacity.

D is 10%.

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with Shareholder approval under Listing Rule 7.1 or 7.4.

(d) **What is the interaction with Listing Rule 7.1?**

The Company's ability to issue Equity Securities under Listing Rule 7.1A will be in addition to its 15% annual placement capacity under Listing Rule 7.1.

(e) **At what price can the Equity Securities be issued?**

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 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 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued,

(Minimum Issue Price).

(f) **When can Equity Securities be issued?**

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A will be valid from the date of Meeting and will expire on the earlier to occur of:

- (i) the date that is 12 months after the date of the Meeting; or
- (ii) the date of Shareholder approval of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

(10% Placement Period).

(g) **What is the effect of Resolution 10?**

The effect of Resolution 10 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period without further Shareholder approval or using the Company's 15% annual placement capacity under Listing Rule 7.1.

10.3 Specific information required by Listing Rule 7.3A

Pursuant to and in accordance with Listing Rule 7.3A, the following information is provided in relation to the 10% Placement Facility:

(a) **Minimum issue price**

If the Company issues Equity Securities for cash consideration under the 10% Placement Facility, then the issue price will be not less than the Minimum Issue Price.

If the Company issues Equity Securities for non-cash consideration under the 10% Placement Facility, then, in accordance with the Listing Rules, the Company will provide a valuation of the non-cash consideration to the market that demonstrates that the issue price of the Equity Securities complies with Listing Rule 7.1A.3.

(b) **Risk of economic and voting dilution**

If this Resolution is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' economic and voting power in the Company will be diluted as shown in the below table (in the case of Options, only if the Options are converted into Shares).

The below table shows:

- (i) the dilution of existing Shareholders based on the current market price of Shares and the current number of Shares for "A" calculated in accordance with the formula in Listing Rule 7.1A.2 (see Section 10.2(c)) as at the date of the Notice (**Variable A**);
- (ii) two examples where Variable A has increased, by 50% and 100%; and
- (iii) two examples of where the issue price of Shares has decreased by 50% and increased by 100% as against the current market price.

Shares on issue Variable A in Listing Rule 7.1A.2	Dilution			
	Issue price per Share	\$0.0145 50% decrease in Issue Price	\$0.029 Issue Price	\$0.058 100% increase in Issue Price
307,856,338 Shares Current Variable A	10% Voting Dilution	30,785,634 Shares	30,785,634 Shares	30,785,634 Shares
	Funds raised	\$446,392	\$892,783	\$1,785,567
461,784,507 Shares 50% increase in Current Variable A	10% Voting Dilution	46,178,451 Shares	46,178,451 Shares	46,178,451 Shares
	Funds raised	\$669,588	\$1,339,175	\$2,678,350
615,712,676 Shares 100% increase in Current Variable A	10% Voting Dilution	61,571,268 Shares	61,571,268 Shares	61,571,268 Shares
	Funds raised	\$892,783	\$1,785,567	\$3,571,134

Notes:

1. The table has been prepared on the following assumptions:
 - (a) the issue price is \$0.029 being the closing price of the Shares on ASX on 11 October 2019, being the last day that the Company's Shares traded on the ASX before this Notice was printed;
 - (b) Variable A is 307,856,338, based on existing Shares on issue as at the date of this Meeting, assuming the Company has not issued any Shares in the 12 months prior to the Meeting that were not issued under an exception in Listing Rule 7.2 or with Shareholder approval or ratification under Listing Rule 7.1 and 7.4 (including the Shares to be ratified pursuant to Resolutions 5 and 6);
 - (c) the Company issues the maximum number of Equity Securities available under the 10% Placement Facility;
 - (d) no convertible securities (including any issued under the 10% Placement Facility) are exercised or converted into Shares before the date of the issue of the Equity Securities; and
 - (e) the issue of Equity Securities under the 10% Placement Facility consists only of Shares. If the issue of Equity Securities includes Options, it is assumed that those Options are exercised into Shares for the purpose of calculating the voting dilution effect on existing Shareholders.
2. The number of Shares on issue (i.e. Variable A) may increase as a result of issues of Shares that do not require Shareholder approval (for example, a pro rata entitlements issue, scrip issued under a takeover offer or upon exercise of convertible securities) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting.
3. The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.

4. 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 Facility, based on that Shareholder's holding at the date of the Meeting.
5. The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.

Shareholders should note that there is a risk that:

- (i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
- (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset,

which may have an effect on the amount of funds raised by the issue of the Equity Securities.

(c) Final date for issue

The Company will only issue the Equity Securities under the 10% Placement Facility during the 10% Placement Period.

Shareholder approval of the 10% Placement Facility will cease to be valid if Shareholders approve a transaction under Listing Rule 11.1.2 or 11.2.

(d) Purposes of issues under 10% Placement Facility

The Company may seek to issue Equity Securities under the 10% Placement Facility for the following purposes:

- (i) cash consideration, in which case the Company intends to use funds raised for continued investment in the Company's current assets, the acquisition of new assets or investments (including expenses associated with such an acquisition), and/or for general working capital; or
- (ii) non-cash consideration for the provision of services to the Company or the acquisition of new projects, assets and investments. In such circumstances the Company will provide a valuation of the non-cash consideration as required under 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 policy

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- (i) the methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing security holders can participate;
- (ii) the effect of the issue of the Equity Securities on the control of the Company;
- (iii) financial situation and solvency of the Company; and
- (iv) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of the Notice but may include existing substantial Shareholders and/or new Shareholders who are not a related party or an associate of a related party of the Company.

Further, if the Company is successful in acquiring new projects, assets or investments, it is possible that the allottees under the 10% Placement Facility will be the vendors of the new projects, assets or investments.

(f) **Issues in the past 12 months**

The Company has previously obtained Shareholder approval under Listing Rule 7.1A at its annual general meeting held on 22 November 2018.

In the 12 months preceding the date of the Meeting and as at the date of this Notice, the Company has issued 282,183,845 Equity Securities. This represents 176% of the total number of Equity Securities on issue at the commencement of that 12 month period.

Details of each issue of Equity Securities by the Company during the 12 months preceding the date of the Meeting are set out in Schedule 2.

(g) **Voting exclusion statement**

A voting exclusion statement is included in the Notice.

At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

11. Resolution 11 - Replacement of Constitution

11.1 General

Under section 136(2) of the Corporations Act, a company may modify or repeal its constitution or a provision of its constitution by special resolution of Shareholders.

Resolution 11 seeks the approval of Shareholders to repeal the Company's existing Constitution and adopt a new constitution (**Proposed Constitution**) which is of the type required for a listed public company limited by shares.

The Proposed Constitution incorporates amendments to the Corporations Act and the Listing Rules since the current Constitution was adopted in January 2016. The Directors

believe that it is preferable in the circumstances to replace the existing Constitution with the Proposed Constitution rather than to amend a multitude of specific provisions.

The Proposed Constitution is broadly consistent with the provisions of the existing Constitution. Many of the proposed changes are administrative or minor in nature including but not limited to expressly providing for statutory rights by mirroring these rights in provisions of the Proposed Constitution.

The Directors believe these amendments are not material nor will they have any significant impact on Shareholders. It is not practicable to list all of the changes to the Constitution in detail in this Explanatory Memorandum, however, a summary of the proposed material changes is set out below.

A copy of the Proposed Constitution is available for review by Shareholders at the office of the Company. A copy of the Proposed Constitution can also be sent to Shareholders upon request to the Company Secretary.

Shareholders are invited to contact the Company if they have any queries or concerns.

Resolution 11 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

The Board recommends that Shareholders vote in favour of Resolution 11.

11.2 Summary of material proposed changes

(a) Restricted Securities (article 2.7)

ASX is proposing to introduce a number of changes to the escrow regime in the Listing Rules in December 2019 to make aspects of the listing process and ongoing compliance with the Listing Rules more efficient for issuers and for ASX.

Amongst these, ASX is proposing to introduce a two-tier escrow regime where ASX can and will require certain more significant holders of Restricted Securities (as defined by the Listing Rules) and their controllers to execute a formal escrow agreement in the form of Appendix 9A, as is currently the case. However, for less significant holdings, ASX will instead permit entities to rely on a provision in their constitution imposing appropriate escrow restrictions on the holder of Restricted Securities and to simply give a notice to the holder of Restricted Securities in the form of a new Appendix 9C advising them of those restrictions.

Under article 2.7 of the Proposed Constitution, holders of Restricted Securities will be taken to have agreed in writing that those Securities are to be kept on the Company's issuer sponsored sub-register and are to have a holding lock applied for the duration of the applicable escrow period. Holders of Restricted Securities will also not be entitled to participate in any return of capital on those Securities during the applicable escrow period, except as permitted by the Listing Rules or ASX.

(b) Partial (proportional) takeover provisions (article 4.9 and schedule 5)

A proportional takeover bid is a takeover bid where the offer made to each shareholder is only for a proportion of that shareholder's shares.

Pursuant to section 648G of the Corporations Act, the Company has included in the Proposed Constitution a provision whereby a proportional takeover bid for Shares may only proceed after the bid has been approved by a meeting of Shareholders held in accordance with the terms set out in the Corporations Act.

This clause of the Proposed Constitution will cease to have effect on the third anniversary of the date of the adoption of last renewal of the clause.

While the original Constitution included a provision regarding proportional takeover bids, this provision ceased to have effect in January 2019.

11.3 Information required by section 648G of the Corporations Act

(a) Effect of proposed proportional takeover provisions

Where offers have been made under a proportional off-market bid in respect of a class of securities in a company, the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under such a proportional off-market bid is prohibited unless and until a resolution to approve the proportional off-market bid is passed.

(b) Reasons for proportional takeover provisions

A proportional takeover bid may result in control of the Company changing without Shareholders having the opportunity to dispose of all their Shares. By making a partial bid, a bidder can obtain practical control of the Company by acquiring less than a majority interest. Shareholders are exposed to the risk of being left as a minority in the Company and the risk of the bidder being able to acquire control of the Company without payment of an adequate control premium. These amended provisions allow Shareholders to decide whether a proportional takeover bid is acceptable in principle, and assist in ensuring that any partial bid is appropriately priced.

(c) Knowledge of any acquisition proposals

As at the date of this Notice, no Director is aware of any proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company.

(d) Potential advantages and disadvantages of proportional takeover provisions

The Directors consider that the proportional takeover provisions have no potential advantages or disadvantages for them and that they remain free to make a recommendation on whether an offer under a proportional takeover bid should be accepted.

The potential advantages of the proportional takeover provisions for Shareholders include:

- (i) the right to decide by majority vote whether an offer under a proportional takeover bid should proceed;
- (ii) assisting in preventing Shareholders from being locked in as a minority;
- (iii) increasing the bargaining power of Shareholders which may assist in ensuring that any proportional takeover bid is adequately priced; and

- (iv) each individual Shareholder may better assess the likely outcome of the proportional takeover bid by knowing the view of the majority of Shareholders which may assist in deciding whether to accept or reject an offer under the takeover bid.

The potential disadvantages of the proportional takeover provisions for Shareholders include:

- (i) proportional takeover bids may be discouraged;
- (ii) lost opportunity to sell a portion of their Shares at a premium; and
- (iii) the likelihood of a proportional takeover bid succeeding may be reduced.

(e) **Recommendation of the Board**

The Directors do not believe the potential disadvantages outweigh the potential advantages of adopting the proportional takeover provisions and as a result consider that the proportional takeover provision in the Proposed Constitution is in the interest of Shareholders and unanimously recommend that Shareholders vote in favour of Resolution 11.

Schedule 1 - Definitions

In the Notice, words importing the singular include the plural and vice versa.

10% Placement Facility has the meaning given in Section 10.1.

10% Placement Period has the meaning given in Section 10.2(f).

3-Day VWAP means the volume weighted average price of Shares for the 3 trading days immediately prior to Completion.

\$ or A\$ means Australian Dollars.

Acquisition means the Company's proposed acquisition of a 100% interest in AOS from the Vendors pursuant to the Acquisition Agreement.

Acquisition Agreement means the restated and amended conditional sale and purchase agreement entered into between the Company and the Vendors on or about 9 October 2019 for the sale and purchase of AOS.

Annual Report means the Directors' Report, the Financial Report, and Auditor's Report, in respect to the year ended 30 June 2019.

AOS means Advanced Offshore Streaming Pty Ltd (ACN 620 773 060).

ASX means the ASX Limited (ABN 98 008 624 691) and, where the context permits, the Australian Securities Exchange operated by ASX Limited.

Auditor's Report means the auditor's report on the Financial Report.

Board means the board of Directors.

Clause means a Clause of the Constitution.

Completion means completion of the Acquisition.

Consultant means ACNS Capital Markets Pty Ltd T/A Alto Capital (ABN 93 088 503 208) (AFSL 279099).

Consultant Shares means 750,000 Shares issued to the Consultant, which are the subject of Resolution 5.

Convertible Notes means up to 4 million convertible notes with a face value of \$1.00 each to be issued to the Noteholders, which are the subject of Resolutions 7 and 8.

Chair means the person appointed to chair the Meeting of the Company convened by the Notice.

Closely Related Party means:

- (a) a spouse or child of the member; or
- (b) has the meaning given in section 9 of the Corporations Act.

Company means Smart Marine Systems Limited (ACN 149 970 445).

Constitution means the constitution of the Company as at the date of the Meeting.

Corporations Act means the *Corporations Act 2001* (Cth).

Deferred Consideration Shares means up to 60,000,000 Shares to be issued to the Vendors (or their respective nominees) pursuant to the Acquisition Agreement.

Director means a director of the Company.

Directors' Report means the annual directors' report prepared under Chapter 2M of the Corporations Act for the Company and its controlled entities.

Equity Security has the same meaning as in the Listing Rules.

Explanatory Memorandum means the explanatory memorandum which forms part of the Notice.

Financial Report means the annual financial report prepared under Chapter 2M of the Corporations Act for the Company and its controlled entities.

Gangus means Gangus Pty Ltd (ACN 981 454 094) as trustee for The JIG Family Trust.

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.

Listing Rules means the listing rules of ASX.

Meeting has the meaning given in the introductory paragraph of the Notice.

Minimum Issue Price has the meaning given in Section 10.2(e).

Noteholders means Schaffer and Gangus (or their respective nominees).

Notice means this notice of annual general meeting.

Option means an option to acquire a Share.

Placement Shares means the 50,000,000 Shares issued on 2 July 2019, which are the subject of Resolutions 6(a) and (b).

Plan means the Company's Employee Securities Incentive Plan which is the subject of Resolution 9, a summary of which is set out in Schedule 3.

Proposed Constitution means the proposed new constitution of the Company, a copy of which may be sent to Shareholders upon request to the Company Secretary, which is the subject of Resolution 11.

Proxy Form means the proxy form attached to the Notice.

Remuneration Report means the remuneration report of the Company contained in the Directors' Report.

Resolution means a resolution referred to in the Notice.

Schaffer means Schaffer Corporation Limited (ACN 008 675 689) (ASX:SFC).

Schedule means a schedule to the Notice.

Section means a section of the Explanatory Memorandum.

Securities means any Equity Securities of the Company (including Shares, Options, Performance Shares, and/or performance rights).

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means the holder of a Share.

Strike means a 'no' vote of 25% or more on the resolution approving the Remuneration Report.

Trading Day has the meaning given in the Listing Rules.

Vendors means the shareholders of AOS, namely Jamie John Dean as trustee for The Dean Family Trust and Jaron Leigh Warburton as trustee for The Warburton Family Trust.

VWAP means volume weighted average market price.

WST means Western Standard Time being the time in Perth, Western Australia.

Schedule 2 - Securities issued in the previous 12 months

Details of each issue of Equity Securities by the Company during the 12 months preceding the date of the Meeting are set out in the table below:

Date	Quantity	Class	Recipients	Issue price / valuation and discount to Market Price (if applicable) ¹	Consideration, Use of Funds and Current Value as at the date of this Notice
Issue - 4/12/2018 Appendix 3B - 5/12/2018	12,550,000	Shares ²	Sophisticated investors	\$0.025 per Share (13.64% premium to market)	Cash Amount raised = \$283,750 ⁵ Amount spent = \$283,750 Use of funds: Deployment of Clever Buoy in Newport, USA and for working capital. Amount remaining = \$Nil
	6,783,336	Unquoted Placement Options ³		Free-attaching option - nil value	
	3,000,000	Unquoted GM Options ⁴	GM Operations <i>Clever Buoy LLC</i>	\$0.0081 average valuation per Option on issue date (nil consideration) Total = \$24,300	Current value ⁶ = \$19,200 (Schedule 4)
Issue - 8/05/2019 Appendix 3B - 8/05/2019	97,568,180	Shares ²	Sophisticated investors / consultants / Harvest vendors ⁸	\$0.022 per Share (8.33% discount to market)	Cash Amount raised = \$1,800,000 ⁹ Amount spent = \$1,800,000 Use of funds: Commencement of Harvest offshore operations, vessel charter bond, vessel transport and for working capital. Amount remaining = \$Nil
	80,000,000	Performance Rights ⁷	Harvest vendors ⁸	\$0.026 valuation per Performance Right based on approval date (26 April 2019 EGM) Total = \$2,080,000	Current value ¹⁰ = \$2,320,000
Issue - 6/06/2019 Appendix 3B - 6/06/2019	22,286,764	Shares ²	Various existing shareholders	\$0.022 per Share (8.33% discount to market)	Cash Amount raised = \$490,308 Amount spent = \$490,308 Use of funds: Commencement of Harvest offshore operations, vessel transport, Clever Buoy development and for working capital. Amount remaining = \$Nil
Issue - 13/06/2019 Appendix 3B - 13/06/2019	9,945,565	Shares ²	Various existing shareholders	\$0.022 per Share (18.52% discount to market)	Cash Amount raised = \$218,802

Date	Quantity	Class	Recipients	Issue price / valuation and discount to Market Price (if applicable) ¹	Consideration, Use of Funds and Current Value as at the date of this Notice
					Amount spent = \$218,802 Use of funds: Commencement of Harvest offshore operations, vessel transport, Clever Buoy development and for working capital. Amount remaining = \$Nil
Issue - 2/07/2019 Appendix 3B - 3/07/2019	50,000,000	Shares ²	Sophisticated investors	\$0.022 per Share (4.35% discount to Market)	Cash Amount raised = \$795,085 Amount spent = \$490,170 Amount remaining = \$304,915 Proposed use of remaining funds ¹¹ : Harvest offshore operations, Clever Buoy development 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. Fully paid ordinary shares in the capital of the Company, **ASX Code: SM8** (terms are set out in the Constitution).
3. Unquoted Options, exercisable at \$0.03 each, on or before 30 November 2020.
4. Unquoted Options, 1 million exercisable at \$0.05 each, on or before 28 November 2021, 1 million exercisable at \$0.08 each, on or before 29 November 2021 and 1 million exercisable at \$0.12 each, on or before 30 November 2021.
5. \$30,000 of fully paid ordinary shares issued in this placement were issued to a consultant for services provided.
6. In respect 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).
7. Performance rights, which convert to fully paid ordinary shares upon satisfaction of non-market-based performance milestones. Terms and conditions of the performance rights are detailed in the most recent annual report.
8. Vendors of Harvest Technology Pty Ltd, a Company that was approved for acquisition via payment of Shares and Performance Rights by Shareholders on 26 April 2019 at an EGM.
9. \$330,000 of fully paid ordinary shares issued in this placement were to vendors of Harvest Technology Pty Ltd as part of consideration transferred in the acquisition. \$16,500 of fully paid ordinary shares issued in this placement were to a consultant for services provided.
10. Valuation of performance rights is based on closing share price of \$0.029 as at 11 October 2019.
11. 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.

Schedule 3 - Summary of Employee Securities Incentive Plan

A summary of the key terms of the Plan is set out below:

1. **(Eligible Participant):** Eligible Participant means a person that:
 - (a) is an "eligible participant" (as that term is defined in ASIC Class Order [CO 14/1000]) in relation to the Company or an Associated Body Corporate (as that term is defined in ASIC Class Order [14/1000]); and
 - (b) has been determined by the Board to be eligible to participate in the Plan from time to time.
2. **(Purpose):** The purpose of the Plan is to:
 - (a) assist in the reward, retention and motivation of Eligible Participants;
 - (b) link the reward of Eligible Participants to Shareholder value creation; and
 - (c) align the interests of Eligible Participants with shareholders of the Group (being the Company and each of its Associated Bodies Corporate), by providing an opportunity to Eligible Participants to receive an equity interest in the Company in the form of Securities.
3. **(Plan administration):** The Plan will be administered by the Board. The Board may exercise any power or discretion conferred on it by the Plan rules in its sole and absolute discretion. The Board may delegate its powers and discretion.
4. **(Eligibility, invitation and application):** The Board may from time to time determine that an Eligible Participant may participate in the Plan and make an invitation to that Eligible Participant to apply for Securities on such terms and conditions as the Board decides. On receipt of an Invitation, an Eligible Participant may apply for the Securities the subject of the invitation by sending a completed application form to the Company. The Board may accept an application from an Eligible Participant in whole or in part. If an Eligible Participant is permitted in the invitation, the Eligible Participant may, by notice in writing to the Board, nominate a party in whose favour the Eligible Participant wishes to renounce the invitation.
5. **(Grant of Securities):** The Company will, to the extent that it has accepted a duly completed application, grant the Participant the relevant number of Securities, subject to the terms and conditions set out in the invitation, the Plan rules and any ancillary documentation required.
6. **(Terms of Convertible Securities):** Each 'Convertible Security' represents a right to acquire one or more Shares (for example, under an option or performance right), subject to the terms and conditions of the Plan. Prior to a Convertible Security being exercised a Participant does not have any interest (legal, equitable or otherwise) in any Share the subject of the Convertible Security by virtue of holding the Convertible Security. A Participant may not sell, assign, transfer, grant a security interest over or otherwise deal with a Convertible Security that has been granted to them. A Participant must not enter into any arrangement for the purpose of hedging their economic exposure to a Convertible Security that has been granted to them.
7. **(Vesting of Convertible Securities):** Any vesting conditions applicable to the grant of Convertible Securities will be described in the invitation. If all the vesting conditions are satisfied and/or otherwise waived by the Board, a vesting notice will be sent to the Participant by the Company informing them that the relevant Convertible Securities have vested. Unless and until the vesting notice is issued by the Company, the Convertible Securities will not be considered to have vested. For the avoidance of doubt, if the vesting

conditions relevant to a Convertible Security are not satisfied and/or otherwise waived by the Board, that Convertible Security will lapse.

8. **(Exercise of Convertible Securities and cashless exercise):** To exercise a Convertible Security, the Participant must deliver a signed notice of exercise and, subject to a cashless exercise of Convertible Securities (see below), pay the exercise price (if any) to or as directed by the Company, at any time prior to the earlier of any date specified in the vesting notice and the expiry date as set out in the invitation. At the time of exercise of the Convertible Securities, subject to Board approval at that time, the Participant may elect not to be required to provide payment of the exercise price for the number of Convertible Securities specified in a notice of exercise, but that on exercise of those Convertible Securities the Company will transfer or issue to the Participant that number of Shares equal in value to the positive difference between the Market Value of the Shares at the time of exercise and the exercise price that would otherwise be payable to exercise those Convertible Securities.

'Market Value' means, at any given date, the volume weighted average price per Share traded on the ASX over the 5 trading days immediately preceding that given date, unless otherwise specified in an invitation.

A Convertible Security may not be exercised unless and until that Convertible Security has vested in accordance with the Plan rules, or such earlier date as set out in the Plan rules.

9. **(Delivery of Shares on exercise of Convertible Securities):** As soon as practicable after the valid exercise of a Convertible Security by a Participant, the Company will issue or cause to be transferred to that Participant the number of Shares to which the Participant is entitled under the Plan rules and issue a substitute certificate for any remaining unexercised Convertible Securities held by that Participant.
10. **(Forfeiture of Convertible Securities):** Where a Participant who holds Convertible Securities ceases to be an Eligible Participant or becomes insolvent, all unvested Convertible Securities will automatically be forfeited by the Participant, unless the Board otherwise determines in its discretion to permit some or all of the Convertible Securities to vest. Where the Board determines that a Participant has acted fraudulently or dishonestly, or wilfully breached his or her duties to the Group, the Board may in its discretion deem all unvested Convertible Securities held by that Participant to have been forfeited.

Unless the Board otherwise determines, or as otherwise set out in the Plan rules:

- (a) any Convertible Securities which have not yet vested will be forfeited immediately on the date that the Board determines (acting reasonably and in good faith) that any applicable vesting conditions have not been met or cannot be met by the relevant date; and
 - (b) any Convertible Securities which have not yet vested will be automatically forfeited on the expiry date specified in the invitation.
11. **(Change of control):** If a change of control event occurs in relation to the Company, or the Board determines that such an event is likely to occur, the Board may in its discretion determine the manner in which any or all of the Participant's Convertible Securities will be dealt with, including, without limitation, in a manner that allows the Participant to participate in and/or benefit from any transaction arising from or in connection with the change of control event.
12. **(Rights attaching to Plan Shares):** All Shares issued under the Plan, or issued or transferred to a Participant upon the valid exercise of a Convertible Security, **(Plan Shares)** will rank pari passu in all respects with the Shares of the same class. A Participant will be entitled to any dividends declared and distributed by the Company on the Plan Shares and may

participate in any dividend reinvestment plan operated by the Company in respect of Plan Shares. A Participant may exercise any voting rights attaching to Plan Shares.

13. **(Disposal restrictions on Plan Shares):** If the invitation provides that any Plan Shares are subject to any restrictions as to the disposal or other dealing by a Participant for a period, the Board may implement any procedure it deems appropriate to ensure the compliance by the Participant with this restriction.

For so long as a Plan Share is subject to any disposal restrictions under the Plan, the Participant will not:

- (a) transfer, encumber or otherwise dispose of, or have a security interest granted over that Plan Share; or
 - (b) take any action or permit another person to take any action to remove or circumvent the disposal restrictions without the express written consent of the Company.
14. **(Adjustment of Convertible Securities):** If there is a reorganisation of the issued share capital of the Company (including any subdivision, consolidation, reduction, return or cancellation of such issued capital of the Company), the rights of each Participant holding Convertible Securities will be changed to the extent necessary to comply with the Listing Rules applicable to a reorganisation of capital at the time of the reorganisation. If Shares are issued by the Company by way of bonus issue (other than an issue in lieu of dividends or by way of dividend reinvestment), the holder of Convertible Securities is entitled, upon exercise of the Convertible Securities, to receive an allotment of as many additional Shares as would have been issued to the holder if the holder held Shares equal in number to the Shares in respect of which the Convertible Securities are exercised. Unless otherwise determined by the Board, a holder of Convertible Securities does not have the right to participate in a pro rata issue of Shares made by the Company or sell renounceable rights.
15. **(Participation in new issues):** There are no participation rights or entitlements inherent in the Convertible Securities and holders are not entitled to participate in any new issue of Shares of the Company during the currency of the Convertible Securities without exercising the Convertible Securities.
16. **(Amendment of Plan):** Subject to the following paragraph, the Board may at any time amend any provisions of the Plan rules, including (without limitation) the terms and conditions upon which any Securities have been granted under the Plan and determine that any amendments to the Plan rules be given retrospective effect, immediate effect or future effect.

No amendment to any provision of the Plan rules may be made if the amendment materially reduces the rights of any Participant as they existed before the date of the amendment, other than an amendment introduced primarily for the purpose of complying with legislation or to correct manifest error or mistake, amongst other things, or is agreed to in writing by all Participants.

17. **(Plan duration):** The Plan continues in operation until the Board decides to end it. The Board may from time to time suspend the operation of the Plan for a fixed period or indefinitely, and may end any suspension. If the Plan is terminated or suspended for any reason, that termination or suspension must not prejudice the accrued rights of the Participants.

If a Participant and the Company (acting by the Board) agree in writing that some or all of the Securities granted to that Participant are to be cancelled on a specified date or on the occurrence of a particular event, then those Securities may be cancelled in the manner agreed between the Company and the Participant.

Schedule 4 - Valuation of Incentive Options at date of Notice of Meeting

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

Tranche 1 Valuation

Assumptions:

Value date:	14 October 2019
Share price:	\$0.029
Exercise price:	\$0.05
Remaining Term:	26 months
Volatility:	0.8437%
Risk free interest rate:	0.73%
Indicative value per Option:	\$0.093 (\$9,300)

Tranche 2 Valuation

Assumptions:

Value date:	14 October 2019
Share price:	\$0.029
Exercise price:	\$0.08
Remaining Term:	26 months
Volatility:	0.8437%
Risk free interest rate:	0.73%
Indicative value per Option:	\$0.062 (\$6,200)

Tranche 3 Valuation

Assumptions:

Value date:	14 October 2019
Share price:	\$0.029
Exercise price:	\$0.12
Remaining Term:	26 months
Volatility:	0.8437%
Risk free interest rate:	0.73%
Indicative value per Option:	\$0.037 (\$3,700)

SMART MARINE SYSTEMS LIMITED

ACN 149 970 445

PROXY FORM

The Company Secretary
Smart Marine Systems Limited

By post: PO Box 584, Fremantle, WA 6959
By hand delivery: Level 1, 31 Cliff Street, Fremantle, WA 6160
By facsimile: +61 8 6444 7408
By email: jordan.mcarthur@broadwaymgt.com.au

Name of
Shareholder:

Address of
Shareholder:

Number of Shares
entitled to vote:

Please mark ☒ to indicate your directions. Further instructions are provided overleaf.

STEP 1 - APPOINT A PROXY TO VOTE ON YOUR BEHALF

Proxy appointments will only be valid and accepted by the Company if they are made and received no later than 48 hours before the Meeting.

I/We being Shareholder/s of the Company hereby appoint:

The Chair of
the Meeting
(mark box)

☐

OR if you are NOT appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

Or failing the person/body corporate named, or if no person/body corporate is named, the Chair of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf, including to vote in accordance with the following directions (or, if no directions have been given, and to the extent permitted by law, as the proxy sees fit), at the Annual General Meeting of the Company to be held at Level 4, 130 Stirling Street, Perth, Western Australia on Thursday, 28 November 2019 at 2:00pm (WST), and at any adjournment or postponement of that Meeting.

CHAIR'S VOTING INTENTIONS IN RELATION TO UNDIRECTED PROXIES

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

Important: If the Chair is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chair to exercise the proxy in respect of Resolution 1, even though this Resolution is connected directly or indirectly with the remuneration of the Company's Key Management Personnel.

STEP 2 - INSTRUCTIONS AS TO VOTING ON RESOLUTIONS

The proxy is to vote for or against the Resolution referred to in the Notice as follows:

		For	Against	Abstain*
Resolution 1	Remuneration Report			
Resolution 2	Election of Director - Mr Rod Evans			
Resolution 3	Election of Director - Mr Paul Guilfoyle			
Resolution 4	Election of Director - Mr Marcus Machin			
Resolution 5	Ratification of prior issue of Placement Fee Shares			
Resolution 6(a)	Ratification of prior issue of Placement Shares - Listing Rule 7.1			

		For	Against	Abstain*
Resolution 6(b)	Ratification of prior issue of Placement Shares - Listing Rule 7.1A			
Resolution 7	Approval to issue Convertible Notes to Schaffer			
Resolution 8	Approval to issue Convertible Notes to Gangus			
Resolution 9	Approval of Employee Securities Incentive Plan			
Resolution 10	Approval of 10% Placement Facility			
Resolution 11	Replacement of Constitution			

If no directions are given my proxy may vote as the proxy thinks fit or may abstain.

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

Authorised signature/s This section ***must*** be signed in accordance with the instructions below to enable your voting instructions to be implemented.

Individual or Shareholder 1

Shareholder 2

Shareholder 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date

¹Insert name and address of Shareholder

² Insert name and address of proxy

*Omit if not applicable

PROXY NOTES

A Shareholder entitled to attend and vote at the Annual General Meeting may appoint a natural person as the Shareholder's proxy to attend and vote for the Shareholder at that Annual General Meeting. If the Shareholder is entitled to cast 2 or more votes at the Annual General Meeting the Shareholder may appoint not more than 2 proxies. Where the Shareholder appoints more than one proxy the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If such proportion or number of votes is not specified each proxy may exercise half of the Shareholder's votes. A proxy may, but need not be, a Shareholder of the Company.

If a Shareholder appoints a body corporate as the Shareholder's proxy to attend and vote for the Shareholder at that Annual General Meeting, the representative of the body corporate to attend the Annual General Meeting must produce the Certificate of Appointment of Representative prior to admission. A form of the certificate may be obtained from the Company's share registry.

You must sign this form as follows in the spaces provided:

Joint Holding: where the holding is in more than one name all of the holders must sign.

Power of Attorney: if signed under a Power of Attorney, you must have already lodged it with the registry, or alternatively, attach a certified photocopy of the Power of Attorney to this Proxy Form when you return it.

Companies: a Director can sign jointly with another Director or a Company Secretary. A sole Director who is also a sole Company Secretary can also sign. Please indicate the office held by signing in the appropriate space.

If a representative of the corporation is to attend the Annual General Meeting the appropriate "Certificate of Appointment of Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's Share Registry.

Proxy Forms (and the power of attorney or other authority, if any, under which the Proxy Form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the Proxy Form (and the power of attorney or other authority) must be provided to the Company Secretary at an address provided above (by post, hand delivery, facsimile or email) not less than 48 hours prior to the time of commencement of the Annual General Meeting (WST).



SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

ANNUAL REPORT

For the year ended 30 June 2019

CONTENTS

	Page
Corporate Information	3
Directors' Report	4
Remuneration Report.....	14
Auditor's Independence Declaration.....	21
Consolidated Statement of Financial Position	22
Consolidated Statement of Profit or Loss and Other Comprehensive Income	23
Consolidated Statement of Changes In Equity	24
Consolidated Statement of Cash Flows.....	26
Notes to the Consolidated Financial Statements	27
Directors' Declaration	75
Independent Auditor's Report.....	76
Corporate Governance Statement.....	80
Stock Exchange Information	90

SMART MARINE SYSTEMS LIMITED

CORPORATE INFORMATION

CORPORATE INFORMATION

Directors

Paul Guilfoyle
Hamish Jolly
David McArthur
Rod Evans

Secretaries

David McArthur
Jordan McArthur

Registered and Principal Office

Level 1, 31 Cliff Street
Fremantle WA 6160

Website: www.smartmarinesystems.com
Email: enquiry@smartmarinesystems.com

Telephone: +61 8 9435 3200
Facsimile: +61 8 6444 7408

Postal Address

PO Box 584
Fremantle WA 6959

Auditors

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

Bankers

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

Share Registry

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

Telephone: +61 1300 552 270

ASX Code

Shares: SM8

Legal Form of Entity

Public company

Country of Incorporation and Domicile

Australia

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2019

DIRECTORS' REPORT

The Directors present their report together with the financial statements of Smart Marine Systems Limited ("the Company") and the entities it controlled ("the Group") for the financial year ended 30 June 2019. 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
<p>Hamish Jolly Non-Executive Director</p> <p>B.Bus (Business Law and Accounting), MAICD, CA</p> <p><u>Interests:</u> Shares: 17,490,884 Options: 2,000,000 Performance Shares: 7,788,446</p>	<p>Hamish is a 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.</p> <p>In 2006, Hamish was awarded in the WA Business News 40 Under 40 recognising the top 40 business leaders under 40 years of age in Western Australia. He is a 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 Biogas Renewables Pty Ltd, an Australian waste to energy development company.</p> <p>Hamish is Chair of the Remuneration and Nomination Committee and is a member of the Audit and Risk Management Committees.</p>
<p>Craig Anderson Managing Director (resigned 27 June 2019)</p> <p>BSc (For), GDBA, GCB</p> <p><u>Interests:</u> Shares: 17,710,217 Options: 4,000,000 Performance Shares: 7,788,446</p>	<p>Craig has a strong background in developing and commercialising new ventures and the management of corporations.</p> <p>Craig is a primary production specialist with a diverse background in a significant number of soft commodities in Australia and Asia. He has tertiary qualifications in forestry and business management and more than 25 years' experience in developing, financing and managing large-scale enterprises. He has held a number of executive and board positions in both private and public companies in Australia and has strong experience of project management and trade in Australian and Asian jurisdictions.</p> <p>Craig has experience 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.</p>

SMART MARINE SYSTEMS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2019

DIRECTORS (continued)

Name and status	Experience, qualifications, special responsibilities and other directorships
<p>David McArthur Independent Non-Executive Chairman and Company Secretary (appointed Chairman 27 June 2019)</p> <p>B.Comm (Accounting and Economics), CA</p> <p><u>Interests:</u> Shares: 1,200,001 Options: 2,000,000</p>	<p>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.</p> <p>David has a Bachelor of Commerce Degree from the University of Western Australia. He has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies.</p> <p>David was appointed as a Non-Executive Director of Lodestar Minerals Limited on 8 September 2018.</p> <p>David was a Non-Executive Director of Sacgasco Limited from 15 November 2016 until 1 February 2017, a Non-Executive Director of Xstate Resources Limited from 3 September 2013 until 15 July 2019 and a Non-Executive Director of Renewable Heat & Power Limited from 14 August 2013 until 2 February 2017.</p> <p>David is Chair of the Audit Committee and is a member of the Risk Management and Remuneration Committees.</p>
<p>Rod Evans Independent Non-Executive Director (appointed 15 May 2019)</p> <p>B.Econ, MAICD</p> <p><u>Interests:</u> Shares: 2,272,727</p>	<p>Rod is an experienced company director and has been involved in successful start-ups, turnarounds and business growth across small, medium and large-scale businesses. Rod currently chairs the boards of Cranecorp Australia, a crane services business; and Ashburton Assurance Australasia, a quality assurance audit business. He has held previous board positions in civil, financial services, water supply, venture capital and community not-for-profit.</p> <p>Rod has previously held senior roles in strategy and investment across a number of companies and government agencies, including Alinta Limited when it was a top 50 ASX company, and as head of the resource sector investment attraction program for the Western Australian Government. He was also a former senior executive with Neptune Marine Services Limited, and has experience working in the oil and gas subsea market.</p> <p>Rod is Chair of the Risk Management Committee and is a member of the Audit and Remuneration and Nomination Committees.</p>
<p>Paul Guilfoyle Executive Director (appointed 27 June 2019)</p> <p><u>Interests:</u> Shares: 19,587,013 Performance Rights: 35,200,000</p>	<p>Paul has significant experience and expertise within the marine industry and is well regarded as a leader in his field, with strengths in operational planning and execution. Having been involved in senior roles for a number of marine companies during his career, Paul has a proven track record for growing marine businesses with an emphasis on partnering with key industry contacts.</p>

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2019

COMPANY SECRETARIES

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 nine 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, and investments in other marine technologies. Through the acquisition of Harvest Technology Pty Ltd in April 2019, the Group has entered the energy, resources and renewables sectors, offering technology-based solutions for subsea and asset integrity risk mitigation.

Aside from the changes noted in the above paragraph, 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 2019

REVIEW OF OPERATIONS

Group Overview

Smart Marine 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 portfolio includes two key areas of activity:

- **Clever Buoy™** – a marine monitoring platform and warning system
- **Harvest Technology** – bespoke solutions provider for offshore energy, resources and renewables sectors, specialising in subsea and asset integrity risk mitigation technology.

Highlights

Highlights include:

- Acquisition of Harvest Technology, dynamic new provider of technology based subsea and asset integrity risk mitigation solutions for the energy, renewables and resources sectors.
- Secured long-term charter of the "VOS Shine", a classed 60m DP2 Offshore Supply Vessel and Dive/ROV/Survey Support Vessel.
- Executed a Collaboration Agreement with global offshore solutions provider Fugro Australia Marine Pty Ltd for the installation of survey equipment, a remotely operated vehicle (ROV) and remote communications technology onboard the Harvest Shine.
- Awarded contract for the delivery and installation of a fibre optic cable from Tiwi Island to offshore Darwin.

Harvest Technology Pty Ltd

On April 26, 2019, shareholders approved the Company's acquisition of Harvest Technology Pty Ltd ("Harvest"). Harvest is a new dynamic end-to-end solutions provider to the subsea technology, renewable energy and oil and gas sectors, that will leverage a range of cutting-edge technologies to offer unique bespoke subsea solutions and asset integrity risk mitigation services.

Harvest possesses a number of key strategic relationships within the global subsea technology and services sector that will immediately assist in promoting the businesses growth and expansion.

Harvest is led by an experienced, high-performance management team, headed by Mr. Paul Guilfoyle. Mr. Guilfoyle has extensive background experience in the provision of marine and subsea solutions, and over time has established strong relationships with key stakeholders in the oil and gas and renewables industries.

The management team collectively has over 60 years marine and subsea expertise supported by extensive client relationships and key industry partnerships. The management team has successfully built subsea solutions operations and has a reputation within the industry for strategy, vision and leadership.

Acquisition consideration was the issue of 15 million fully paid ordinary shares at an issue price of 2.2 cents each, plus 80 million performance rights, with vesting dependent upon Harvest achieving specific revenue targets established by the Company.

During April and May, the Company successfully raised \$2.5 million in working capital to fund the start-up of the Harvest business and provide general working capital. \$1.8 million was raised by way of a private placement at 2.2 cents per share, and a further \$700,000 was raised by way of a 1:7 entitlements issue at 2.2 cents per share.

A further \$1.1 million was raised in early July by way of a placement at 2.2 cents per share.

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2019

REVIEW OF OPERATIONS (continued)

Vessel Charter – VOS Shine:

On 27 May 2019 Harvest signed a Bareboat Charter Party with DSV IV Express B.V. for the long-term charter of the VOS Shine ("Shine"), a 60 metre DP2 Lloyds classed Offshore Supply Vessel. Purpose built in 2012, the vessel is also utilised as a shallow draft Survey, Air Dive and Remotely Operated Vehicle (ROV) support vessel. The Shine provides Harvest with a solid platform from which to propel its future growth strategies into the Asia- Pacific region.



Delivery of the Shine was taken in late July in the Netherlands, with the arrival in Australia expected in late August ahead of the commencement of its first Australian scope of work. The vessel's home port will be Dampier, Western Australia.

Industry Collaboration:

Harvest's relationship with Fugro has been reinforced with the execution of a two-year Collaboration Agreement that will see Fugro install survey equipment, ROV and remote communications technology onboard the Shine. Fugro is a global industry leader in survey, offshore Inspection Maintenance and Repair (IMR), remote monitoring system technologies, and subsea engineering. Both companies will jointly market and utilise the vessel within Australia.

TIWI Island Fibre Optic Cable Installation Contract:

Harvest's first Australian contract involves the Shine delivering fibre optic cable from Calais, France to Darwin, in conjunction with the vessel mobilising into Australia. On arrival, the Shine will assist the installation of the cable from Tiwi Island to offshore Darwin. Revenue from this initial contract is estimated to be between A\$1.2 million and A\$ 1.4 million.

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2019

Vessel Supply Contract – Bass Strait Victoria:

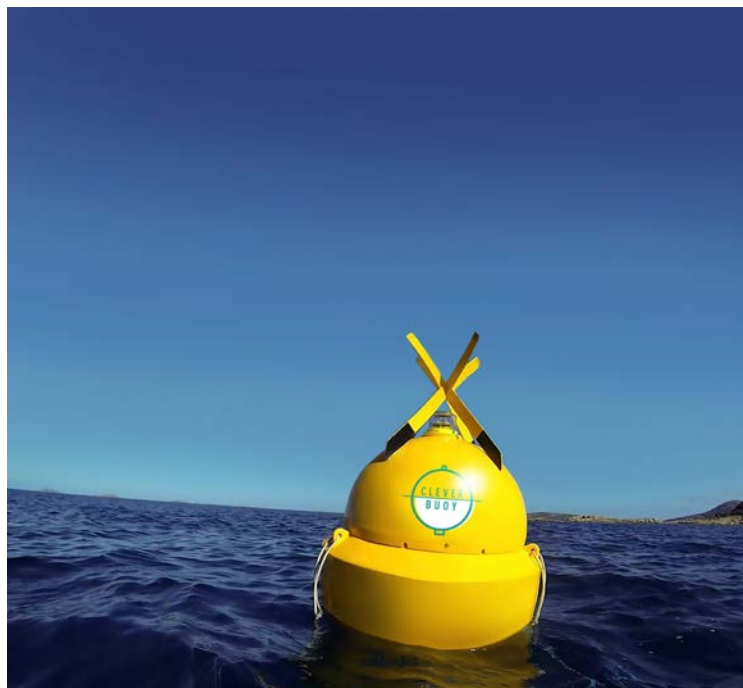
Post completion of the Tiwi Island Cable installation, Harvest has been awarded a vessel supply contract for the Shine to execute a geophysical and geotechnical campaign in the Bass Strait. The contract will see Harvest relocate the Shine ex-Dampier, Western Australia to Portland, Victoria.

Asset Integrity, Data Collection, Communications and Engineering:

The Company has been awarded a number of smaller engineering studies which will aim to assist in the gathering of continuous data offshore and in near coastal areas. The Management team continue to review and develop the Clever Buoy with communication enhancements and synergies with other industry sectors to increase utilisation and commercialisation.

Marine Monitoring and Alert System | Clever Buoy

Despite successfully completing a 100-day pilot deployment at Newport beach in California during which the Clever Buoy observed a significant level of marine life including a significant volume of threatened shark activity, Newport Beach city officials have not yet agreed to the permanent installation of a Clever Buoy facility.



Board Changes

In May 2019, the Board appointed Mr. Rod Evans as a Non-Executive Director of the Company. Rod is an experienced Company Director and the Board believes that Rod's experience will strengthen and compliment the Board's existing skill base.

In June 2019, the Board was also pleased to appoint Harvest's Paul Guilfoyle as an Executive Director of the Company.

Craig Anderson resigned as a director during June.

Review of Operating Results and Financial Conditions

Revenue for financial year 2019 for continuing and discontinued operations was \$124,643 (2018: \$143,092). The loss for the financial year ended 30 June 2019 attributable to members of Smart Marine Systems Limited after income tax was \$1,454,431 (2018: loss of \$2,238,553).

The Group has a working capital surplus of \$1,844,020 at 30 June 2019 (2018: \$493,046) and had net cash inflows of \$1,705,616 (2018: net cash outflow of \$158,198).

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

SMART MARINE SYSTEMS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2019

REVIEW OF OPERATIONS (continued)

Five year Group Performance Summary and Shareholder returns

	2019	2018	2017	2016	2015
Revenue from ordinary activities*	124,643	143,092	671,027	684,365	184,128
(Loss) / profit before income tax*	(1,633,529)	(2,527,886)	(4,098,161)	(761,262)	141,999
Net (loss) / profit attributable to equity holders (\$)	(1,454,431)	(2,238,553)	(3,566,436)	(724,129)	113,325
Share price at year end (cents)	2.20	2.50	7.40	22.50	n/a
Number of listed ordinary shares	257,856,338	106,505,829	66,889,153	54,915,013	n/a
Number of unlisted ordinary shares	100	100	100	100	100
Weighted average number of shares	136,678,041	76,869,895	60,186,855	34,479,116	100
Basic loss per share EPS (cents)	(1.06)	(2.91)	(5.93)	(2.10)	n/a
Unlisted options	28,523,336	27,365,000	12,525,000	5,000,000	n/a
Performance shares	17,698,710	17,698,710	17,698,710	28,997,850	n/a
Performance rights	80,000,000	-	-	-	n/a
Market capitalisation (\$)	5,672,842	2,662,648	4,949,805	12,355,900	n/a
Net tangible assets / (liabilities) (NTA) (\$)	2,347,326	824,502	1,433,324	2,673,986	(61,233)
NTA Backing (cents)	0.91	0.77	2.14	4.87	(0.21)

* Revenue from ordinary activities and pre-tax losses for financial years 2019 and 2018 are inclusive of discontinued operations

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year, the Group acquired Harvest Technology Pty Ltd via the issue of 15,000,000 fully paid ordinary shares and 80,000,000 performance rights with vesting conditions linked with revenue related milestones for the acquired business.

Additionally, during April 2019, the Board of Directors determined that it was no longer economically viable to pursue the visual technology aspect of the Group's operations any further, and as such Visual Technology development and sales has been discontinued.

DIVIDENDS

The Directors recommend that no dividend be provided for the year ended 30 June 2019 (2018: nil).

SIGNIFICANT EVENTS AFTER BALANCE DATE

Other than as disclosed in note 8.7 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 assess the commercial opportunities available for the Company's near-shore detection and alert systems, in addition to growing its network within the offshore subsea and asset integrity risk mitigation field. The Group continues to assess new marine technology opportunities as they arise.

SMART MARINE SYSTEMS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2019

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	9	9	2	2
Craig Anderson ⁽¹⁾	8	8	-	-
David McArthur	9	9	2	2
Rod Evans ⁽²⁾	5	5	-	-
Paul Guilfoyle ⁽²⁾	-	-	-	-

⁽¹⁾ Not a member of the relevant committee

⁽²⁾ Not a member of the committee at the time meetings were held during the year

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
07-May-17	3,500,000	20 – 30	31-Jan-20
01-Jun-17	400,000	5	1-Jun-20
22-Nov-18	6,783,336	3	30-Nov-20
23-Nov-17	6,000,000	10	31-Dec-20
10-Apr-18	2,000,000	10	31-Dec-20
10-Apr-18	1,000,000	5	8-Feb-21
15-Feb-18	3,000,000	8	28-Feb-21
24-Apr-18	2,840,000	8	28-Feb-21
22-Nov-18	1,000,000	5	28-Nov-21
22-Nov-18	1,000,000	8	29-Nov-21
22-Nov-18	1,000,000	12	30-Nov-21
	28,523,336		

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.

8,625,000 options expired or lapsed during or since the end of the reporting period (2018: nil).

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2019

The options detailed above are inclusive of free-attaching options issued as part of capital raisings undertaken, and as such have no attributable value. On this basis these options have not been included in the options table disclosed in note 8.1 to the accounts.

PERFORMANCE SHARES

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

Issue date	Expiry date	Number of performance shares
2-Feb-16	2-Feb-21	17,398,710
		<u>17,398,710</u>

These performance shares 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 conversion of performance shares.

300,000 performance shares expired or lapsed during or since the end of the reporting period (2018: nil).

Milestones for conversion of performance shares are detailed in note 8.1.

PERFORMANCE RIGHTS

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

Issue date	Expiry date	Number of performance rights
26-Apr-19	26-Apr-21	25,000,000
26-Apr-19	26-Apr-22	25,000,000
26-Apr-19	26-Apr-23	30,000,000
		<u>80,000,000</u>

These performance rights 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 conversion of performance rights.

No performance rights expired or lapsed during or since the end of the reporting period (2018: nil).

Milestones for conversion of performance rights are detailed in note 8.1.

ENVIRONMENTAL LEGISLATION

The Group is not subject to any significant environmental legislation.

SMART MARINE SYSTEMS LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2019

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 \$21,388 (2018: \$18,367) 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 2019 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 22 and forms part of this Directors' report for the year ended 30 June 2019.

Signed in accordance with a resolution of the Directors.



DAVID McARTHUR

Non-Executive Chairman

Dated in Perth, Western Australia, this 30th day of August 2019.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2019

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 2019. 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 Group depends upon the quality of the Executives and Key Management Personnel. The philosophy of the Group in determining remuneration levels is to:

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

Remuneration can consist 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 Directors and other Key Management to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

There are presently no short-term incentives set for Executive Directors or other Key Management achievement of operational targets. The setting of these incentives is the responsibility of the Remuneration Committee.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2019

Remuneration structure (continued)

Variable remuneration - Long-term incentive scheme

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

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 advisors 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.

During the 2019 financial year, the Remuneration Committee reviewed the expected commitments of each Director relative to the activities of the Company, and recommended a general increase in Non-Executive Directors' fees to \$50,000 per annum for the 2020 financial year, commensurate with the increase in activity of the Group.

Employment contracts

Remuneration and other terms of employment of Executive Directors and other Key Management Personnel are formalised in employment contracts. The major provisions of the agreements related to remuneration are set out below.

Name	Terms of agreement	Employee notice period	Employer notice period	Base salary *	Termination Benefit **
Paul Guilfoyle	On-going from 1 March 2019	Six months	Six months	\$240,000	Six months base salary
Colin Napier	On-going from 23 April 2019	Three months	Three months	\$200,000	Three months base salary
Linda Shields	On-going from 1 March 2019	Three months	Three months	\$200,000	Three months base salary
Diranne Lee-Renwick	On-going from 1 May 2019	Three months	Three months	\$200,000	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 2019

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 Directors						
Craig Anderson	2019	173,141	6,842	15,833	-	195,816
	2018	266,346	6,123	23,750	85,200	381,419
Paul Guilfoyle ^(B)	2019	-	-	-	-	-
	2018	-	-	-	-	-
Non-Executive Directors						
Hamish Jolly	2019	26,636	6,842	2,530	-	36,008
	2018	44,140	6,122	4,193	42,600	97,055
David McArthur	2019	32,941	6,842	2,892	-	42,675
	2018	27,397	6,122	2,603	21,738	57,860
Rod Evans	2019	8,334	862	-	-	9,196
	2018	-	-	-	-	-
Sub-total Non-Executive Directors' remuneration	2019	67,911	14,546	5,422	-	87,879
	2018	71,537	12,244	6,796	64,338	154,915
Total Directors' Remuneration	2019	241,052	21,388	21,255	-	283,695
	2018	337,883	18,367	30,546	149,538	536,334

(A) Includes movements in accruals for annual leave for Executive Directors

(B) Paul Guilfoyle was remunerated as a KMP until his appointment as a Director on 27 June 2019.

No element of remuneration in 2019 and 2018 was linked to performance.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2019

Remuneration of other Key Management Personnel

Name		Short-term employee benefits		Post-employment benefits	Share-based payments	Total
		Cash salary and fees (A) \$	Non-Monetary \$	Superannuation \$	Options \$	
KMP						
Paul Guilfoyle	2019	38,498	-	3,435	-	41,933
<i>Managing Director - Harvest</i>	2018	-	-	-	-	-
Colin Napier	2019	31,976	-	2,762	-	34,738
<i>CFO - Harvest</i>	2018	-	-	-	-	-
Linda Shields	2019	34,698	-	2,762	-	37,460
<i>CCO - Harvest</i>	2018	-	-	-	-	-
Diranne Lee-Renwick	2019	16,568	-	1,462	-	18,030
<i>CTO - Harvest</i>	2018	-	-	-	-	-
Total other KMP	2019	121,740	-	10,421	-	132,161
Remuneration	2018	-	-	-	-	-

(A) Includes movements in accruals for annual leave

No element of remuneration in 2019 and 2018 was linked to performance. No element of KMP remuneration in 2019 or 2018 comprised equity securities.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2019

Options

Granted as compensation – prior year

At the date of this report, share options granted to the Directors of the Company as part of their remuneration in FY 2018 were:

	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)	Exercise price per option cents	Expiry date
Craig Anderson	4,000,000	23-Nov-17	2.13	85,200	-	10	31-Dec-20
Hamish Jolly	2,000,000	23-Nov-17	2.13	42,600	-	10	31-Dec-20
David McArthur	2,000,000	10-Apr-18	1.09	21,738	-	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 2019

Share-based remuneration granted as compensation

For details of share-based payments granted during the year, refer note 8.1.

Other information

Ordinary shares held by Directors

	Held at 1 July 2018	Initial holding upon appointment	Purchases	Sales	Held at 30 June 2019
Executive Directors					
Craig Anderson	17,240,259	-	1,300,725	(830,767)	17,710,217*
Paul Guilfoyle	-	19,587,013	-	-	19,587,013
Non-Executive Directors					
Hamish Jolly	17,094,279	-	2,434,897	(2,038,292)	17,490,884
David McArthur	170,000	-	1,030,001	-	1,200,001
Rod Evans	-	2,272,727	-	-	2,272,727

* Number of shares held upon cessation of directorship

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

Options held by Directors

	Held at 1 July 2018	Granted as remuneration	Held at 30 June 2019	Vested and exercisable at 30-Jun-19	Unvested and unexercisable at 30-Jun-19
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

* Number of options held upon cessation of directorship

Directors not disclosed above did not hold options at any time during the financial year, nor at year end.

SMART MARINE SYSTEMS LIMITED
REMUNERATION REPORT
For the year ended 30 June 2019

Performance shares held by Directors

	Held at 1 July 2018	Converted to fully paid shares	Held at 30 June 2019	Convertible at 30 June 2019
Executive Directors				
Craig Anderson	7,788,446	-	7,788,446*	-
Non-Executive Directors				
Hamish Jolly	7,788,446	-	7,788,446	-

* Number of performance shares held upon cessation of directorship

Directors not disclosed above did not hold performance shares at any time during the financial year, nor at year end.

Performance rights held by Directors

	Held at 1 July 2018	Initial holding upon appointment	Held at 30 June 2019	Convertible at 30 June 2019
Executive Directors				
Paul Guilfoyle	-	35,200,000	35,200,000	-

Directors not disclosed above did not hold performance rights at any time during the financial year, nor at year end.

Other transactions with Directors or Key Management Personnel

Details of other transactions with Directors or Key Management Personnel not involving remuneration are disclosed in note 8.4.

Use of remuneration consultants

No remuneration consultants provided services during the year.

Voting and comments at the Company's 2018 Annual General Meeting

The Company received 98.20% of "yes" votes on its remuneration report for the 30 June 2018 financial year.

THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

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 2019, 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.

Perth, Western Australia
30 August 2019



M R Ohm
Partner

hlb.com.au

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

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

T: +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

SMART MARINE SYSTEMS LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	2019 \$	2018 \$
Assets			
Cash and cash equivalents	6.1	2,172,384	466,642
Trade and other receivables	6.2	25,642	26,471
Inventory	6.3	-	29,641
Prepayments		95,183	57,385
Financial Assets held at FVTPL	6.4	300,000	-
Other bonds and deposits		-	13,508
Current tax assets		-	117,103
Total current assets		2,593,209	710,750
Intangible assets	5.1	41,527	108,374
Property, plant and equipment	5.2	174,942	371,279
Goodwill	5.3	533,153	-
Investment in associate	8.6	-	-
Other bonds and deposits		54,362	-
Total non-current assets		803,984	479,653
Total assets		3,397,193	1,190,403
Liabilities			
Trade and other payables	6.5	159,923	125,316
Borrowings	7.2	30,543	29,264
Employee entitlements	2.4	103,723	63,124
Other liabilities	6.6	455,000	-
Total current liabilities		749,189	217,704
Borrowings	7.2	-	39,823
Total non-current liabilities		-	39,823
Total liabilities		749,189	257,527
Net assets		2,648,004	932,876
Equity			
Issued capital	7.1	9,379,698	6,214,775
Reserves		432,391	957,168
Accumulated losses		(7,164,085)	(6,239,067)
Total equity attributable to equity holders of the Company		2,648,004	932,876

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 2019

	Note	2019 \$	2018 \$
Continuing operations			
Sales	2.2	11,747	-
Other income	2.3	75,128	85,870
Other operating expenses		(6,615)	(11,289)
Marketing and business development		(56,009)	(249,595)
Personnel expenses	2.4	(714,578)	(962,485)
General and administration		(330,590)	(216,299)
Professional fees		(336,772)	(267,270)
Depreciation and amortisation		(210,725)	(389,053)
Research and development		(213,773)	(261,286)
Finance expenses	2.5	(3,040)	(8,951)
Revaluation of Financial Assets held at FVTPL	6.4	300,000	-
Other losses		(59,083)	(44,303)
Loss before income tax		(1,544,310)	(2,324,661)
Income tax benefit	2.6	179,098	166,846
Net loss for the year from continuing operations		(1,365,212)	(2,157,815)
Loss after tax from discontinued operations	4	(89,219)	(80,738)
Loss attributable to owners of the Company		(1,454,431)	(2,238,553)
Other comprehensive income			
Foreign currency translation differences on foreign operations		506	894
Total comprehensive loss for the year		(1,453,925)	(2,237,659)
Total comprehensive loss attributable to owners of the Company		(1,453,925)	(2,237,659)
Loss per share			
Basic and diluted loss per share (cents per share)	2.7	(1.06)	(2.91)
Basic and diluted loss per share (cents per share) from continuing operations	2.7	(1.00)	(2.81)
Basic and diluted loss per share (cents per share) from discontinued operations	2.7	(0.06)	(0.10)

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 2019

	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 2018		6,214,775	894	956,274	(6,239,067)	932,876
Loss for the year		-	-	-	(1,454,431)	(1,454,431)
Foreign exchange translation difference on foreign operations		-	506	-	-	506
Total other comprehensive income for the year		-	506	-	(1,454,431)	(1,453,925)
Total comprehensive loss for the year		-	506	-	(1,454,431)	(1,453,925)
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	7.1	3,017,847	-	-	-	3,017,847
Share-based payment transactions	7.1	438,000	-	-	-	438,000
Capital raising costs	7.1	(290,924)	-	-	-	(290,924)
Share-based payment expense on vested share options		-	-	26,298	-	26,298
Expiry of unvested share options		-	-	(22,168)	-	(22,168)
Expiry of vested share options		-	-	(529,413)	529,413	-
Total transactions with owners		3,164,923	-	(525,283)	529,413	3,169,053
Balance at 30 June 2019		9,379,698	1,400	430,991	(7,164,085)	2,648,004

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 2019

	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						
Issue of ordinary shares	6.1	1,188,500	-	-	-	1,188,500
Share-based payment transactions		-	-	363,403	-	363,403
Capital raising costs	6.1	(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 CASH FLOWS

For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Receipts from customers		69,927	129,580
Cash paid to suppliers and employees		(1,461,512)	(1,636,232)
Interest paid		(3,041)	(8,891)
Interest received		1,406	4,328
Payments for research and development		(265,464)	(267,037)
Income taxes received		369,923	632,747
Net cash used in operating activities	6.1(b)	(1,288,761)	(1,145,505)
Cash flows from investing activities			
Payments for capitalised research and development		-	(3,195)
Payments for plant and equipment		(44,906)	(14,826)
Proceeds from sale of plant and equipment		50,584	-
Receipt of loan repayment from associate		-	16,034
Loan to subsidiary pre-acquisition		(143,925)	-
Acquisition of cash in business combination	3	25,087	-
Net cash used in investing activities		(113,160)	(1,987)
Cash flows from financing activities			
Proceeds from issue of share capital	6.6 / 7.1	3,442,847	1,092,500
Proceeds from related party loans		-	50,000
Payment of capital raising costs		(245,424)	(50,642)
Payment of transaction costs related to loans		-	(60)
Repayment of loans from related parties	7.2	(7,223)	(50,000)
Repayment of borrowings and premium funding facility	7.2	(82,663)	(52,504)
Net cash from financing activities		3,107,537	989,294
Net increase / (decrease) in cash and cash equivalents		1,705,616	(158,198)
Cash and cash equivalents at 1 July		466,642	624,251
Effect of exchange rate fluctuations on cash held		126	589
Cash and cash equivalents at 30 June	6.1(a)	2,172,384	466,642

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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. Business Combination
4. Discontinued Operations
5. Assets and Liabilities
6. Working capital disclosures
7. Equity and funding
8. 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:

- a) development and commercialisation of marine technologies focused on detection and data collection; and
- b) bespoke solutions for the offshore energy, resources and renewables sectors, specialising in subsea and asset integrity risk mitigation technology.

The consolidated financial statements of the Group as at and for the year ended 30 June 2019 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 30 August 2019. 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 2018. Refer to note 8.11 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 8.11 for further details.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as at 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.

1.3 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.

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 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.

1.4 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.

1.5 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.

Goodwill is assessed for impairment annually under the requirements of AASB 136. Details of the impairment assessment undertaken in respect of goodwill is included in note 5.3.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.6 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

- *Note 2.6* - *Income tax expense*
- *Note 5.3* - *Goodwill*
- *Note 6.2* - *Recoverability of Trade Receivables*
- *Note 6.4* - *Financial Assets held at FVTPL*
- *Note 7.2* - *Borrowings*
- *Note 8.1* - *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:

- Clever Buoy near shore shark detection device technology design, development and commercialisation; and
- Subsea and asset integrity risk mitigation technology-based solutions within the energy, resources and renewables sectors.

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

The offering of bespoke subsea and asset integrity risk mitigation technology-based solutions generates income from subsea infrastructure and assets in the energy, resources and renewables segments.

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*.

Discontinued Operations

The results of the Group's visual deterrent technology operations have been classified as a discontinued operation as disclosed in Note 4.

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	
	2019	2018	2019	2018
	\$	\$	\$	\$
Clever Buoy shark detection technology	197,155	459,296	(41,974)	(121,636)
Subsea and asset integrity risk mitigation	575,589	-	(143,194)	-
Total segment assets and liabilities	772,744	459,296	(185,168)	(121,636)
Corporate and other segment assets/liabilities	2,624,449	731,107	(564,021)	(135,891)
Total	3,397,193	1,190,403	(749,189)	(257,527)

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	
	2019 \$	2018 \$	2019 \$	2018 \$
Clever Buoy shark detection technology	11,747	-	(649,356)	(911,136)
Subsea and asset integrity risk mitigation	-	-	(275,143)	-
Total for continuing operations	11,747	-	(924,499)	(1,114,361)
SAMS visual technology (discontinued operation)	37,768	57,222	(89,219)	(203,225)
Total for continuing and discontinued operations	49,515	57,222	(1,013,718)	(1,114,361)
FV gain on revaluation of financial asset			300,000	-
Finance income			1,406	3,653
Central and administration expenses			(918,177)	(1,408,227)
Finance expense			(3,040)	(8,951)
Loss before tax			(1,633,529)	(2,527,886)
Income tax benefit			179,098	289,333
Loss after tax			(1,454,431)	(2,238,553)

Changes to the basis of segmentation have occurred since 30 June 2018 due to the discontinuation of the Visual Technology segment and commencement of operations in the Subsea and Asset Integrity Risk Mitigation segment resulting from the acquisition of Harvest Technology. There have been no changes for the measurement basis for the Clever Buoy segment.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 OPERATING SEGMENTS (continued)

Geographical information

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

	Revenue from external customers		Non-current assets	
	2019 \$	2018 \$	2019 \$	2018 \$
Australia / New Zealand	11,747	-	803,984	479,653
Europe	-	-	-	-
USA	-	-	-	-
	11,747	-	803,984	479,653

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

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

2.2 REVENUE

Accounting Policy

Revenue from contracts with customers is recognised in the income statement when the performance obligations are considered met, per the specific requirements of contract for the goods or services being provided by the Group, as disclosed further below. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to, net of goods and services tax.

(a) Product Sales

Visual Technology Products

Sales revenue is recognised using the "sales method" of accounting. Revenue from sales of visual technology shark deterrent products are recognised at the point in time when the product is transferred to the customer. The adoption of AASB 15 did not have an impact on the timing of revenue recognition.

(b) Rendering of services

Clever Buoy – Shark Detection Technology Services

Sales revenue from rendering of services in regard to deployment of a Clever Buoy is recognised when the performance obligations to the customer have been fulfilled. The Group determines whether each performance obligation within a contract is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternate use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that the majority of contracts entered into for Clever Buoy historically satisfy criteria over time, being revenue earned for provision of Clever Buoy services in-water for a specified duration. The customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs. Contract revenue is measured over time and recognised using the input method by reference to days of service provision under the contract, relative to the total expected input of service days to be provided under the contract.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 REVENUE (continued)

Accounting Policy (continued)

(b) Rendering of services (continued)

Harvest Technology – Offshore Subsea Services

Sales revenue from rendering of services in relation to provision of technology-based solutions for subsea and asset integrity risk mitigation is recognised when the specific performance obligations to the customer have been fulfilled. The Group determines whether each performance obligation within a contract is satisfied over time or at a point in time. Criteria for determination if performance obligations are satisfied at a point in time or over time are noted on page 33.

The Group has determined that the majority of contract work Harvest Technology will engage in is over time rather than at a point in time as the contractual work for IMR pertains to assessment of assets held by customers across an agreed period of time to ensure appropriate upkeep and repair of assets to maintain their working order. As such, the customers receive and consume the benefits provided by the Group's performance as it is performed. For this reason, contract revenue is recognised over time and is measured using the input method by reference to labour hours incurred and actual costs incurred, relative to the total expected inputs to the satisfaction of the individual performance obligations.

(c) Licensing and royalty income

Visual Technology Design Licencing

Visual Technology design licenses delivered by the Group are considered to be passive licenses as right-of-use of the patented Visual Technology Design for shark deterrence is conferred upon the customer. The Group considers for each contract that includes a performance obligation relating to licencing of the Visual Technology all the facts and circumstances in determining whether the royalty revenue derived from the license conveyed. The facts and circumstances of licensing agreements in the current financial year give rise to performance obligations being satisfied over time and revenue recognised reflects this.

Transaction price

The total transaction price at the start of the contract is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, net of goods and services tax. The transaction price does not include estimates of consideration resulting from change orders for additional goods or services unless these are agreed. Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when or as those performance obligations are satisfied.

Disaggregation of revenue

AASB 15 requires entities to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group has determined that a disaggregation of revenue using existing segments and the nature of revenue best depicts the Group's revenue.

	2019 \$	2018 \$
Revenue earned over time		
Rendering of services	11,747	-
Total Revenue	11,747	-

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.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to historical expenditure for Research & Development and Export Market Development are recognised in full in the period that they are received.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

	2019 \$	2018 \$
Government grants	73,722	54,023
Interest income	1,406	3,653
Insurance claim	-	28,194
	75,128	85,870

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 8.1.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS (continued)

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

	Note	2019 \$	2018 \$
Wages and salaries		317,341	329,092
Directors' remuneration	8.4	283,695	536,334
Other KMP remuneration	8.4	132,161	-
Contributions to defined contribution plans		29,918	31,264
Decrease in liability for annual leave		(12,220)	(1,461)
Equity-settled share-based payments		4,130	198,090
Fringe benefits tax		(3,840)	5,060
Other associated personnel expenses		7,212	981
		758,397	1,099,360

Further information relating to Directors' and KMP remuneration is set out in note 8.4. The amounts disclosed above are inclusive of discontinued operations.

The table below sets out employee benefits payable as at reporting date.

Current	2019 \$	2018 \$
Salary accrual	(33,575)	(3,360)
Superannuation	-	(319)
Liability for annual leave	(70,148)	(59,445)
	(103,723)	(63,124)

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	2019 \$	2018 \$
Interest expense on financial liabilities measured at amortised cost			
Interest expense on loans received from related parties	7.2	-	2,082
Interest expense on premium funding	7.2	1,374	2,921
Interest expense on other borrowings	7.2	1,666	3,888
Other finance charges		-	60
Finance expense recognised in profit or loss		3,040	8,951

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

	2019	2018
	\$	\$
Current tax benefit / (expense)		
Current tax	-	116,071
Deferred tax	-	-
Over provision in prior year	179,098	173,262
Total income tax benefit	179,098	289,333

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.6 INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate

	Note	2019 \$	2018 \$
Loss before tax*		(1,454,431)	(2,238,553)
Total income tax (benefit / expense)		(179,098)	(289,333)
Loss excluding income tax		(1,633,529)	(2,527,886)
Income tax at the Australian tax rate of 27.5% (2018: 27.5%)		(449,220)	(695,169)
<i>Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:</i>			
Entertainment		649	1,094
Share-based payments		9,386	99,936
Research and development benefit		-	(43,073)
Share of loss of associate		-	-
Impairment of investment in associate		-	-
Other permanent differences		104,818	11,750
Change in corporate tax rate in SBE		-	-
Difference in foreign income tax rates		389	(2,379)
Under / (over) provision in prior years		(179,098)	(173,262)
Tax benefit attributable to discontinued operation	4	-	122,487
Deferred tax assets not brought to account		333,978	511,770
		(179,098)	(166,846)

* Loss for the year is inclusive of continued and discontinued operations

(c) Recognised deferred tax assets and liabilities

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

	2019 \$	2018 \$
Deferred tax liabilities (DTLs)		
Prepayments	26,175	15,781
Investments	78,473	-
Research and development	-	14,253
	104,648	30,034
Off-set of deferred tax assets	(104,648)	(30,034)
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:

	2019	2018
	\$	\$
Deferred tax assets (DTAs)		
Tax losses	1,072,407	769,029
Property, plant and equipment	2,050	31,582
Capital raising costs	110,275	71,956
Employee entitlements	19,291	16,435
Investments	-	4,027
Other temporary differences	105,147	18,543
	1,309,170	911,572
Offset of deferred tax liabilities	(104,648)	(30,034)
Net deferred tax assets unrecognised	1,204,522	881,538

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.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.7 LOSS PER SHARE

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 2019 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

	2019	2018
Net loss for the year from continuing operations	(1,365,212)	(2,157,815)
Net loss for the year from discontinued operations	(89,219)	(80,738)
Net loss for the year attributable to ordinary shareholders	(1,454,431)	(2,238,553)
Issued ordinary shares at 1 July	106,505,929	66,889,153
Effect of shares issued	30,172,112	9,980,642
Weighted average number of ordinary shares at 30 June	136,678,041	76,869,895
Basic and diluted loss per share from continuing operations	(1.00)	(2.81)
Basic and diluted loss per share from discontinued operations	(0.06)	(0.10)
Basic and diluted loss per share *	(1.06)	(2.91)

* At 30 June 2019, 28,523,336 options (2018: 27,365,000 options), 17,698,710 performance shares (2018: 17,698,710 performance shares) and 80,000,000 performance rights (2018: nil performance rights) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 3 BUSINESS COMBINATION

On 26 April 2019, the Group acquired 100% of the voting equity instruments of Harvest Technology Pty Ltd (**Harvest**), a company whose principal activity is the provision of bespoke technology solutions to the energy, renewables and resources sectors, principally in the field of subsea and asset integrity risk mitigation solutions. The principal reason for the acquisition was to expand the portfolio of marine technology services that the Group offers.

Assets acquired and liabilities assumed at date of acquisition

Details of the fair value of identifiable assets acquired and liabilities assumed, purchase consideration transferred, and goodwill recognised are as follows:

	Fair Value \$
Cash and Cash Equivalents	25,087
Prepayments	50,380
Property, Plant and Equipment	1,667
Other Bonds and Deposits	54,362
Trade and Other Payables	(96,545)
Borrowings	(151,147)
Employee Entitlements	(26,957)
Total Net Liability Position	(143,153)

Fair value of consideration transferred

15 million fully paid ordinary shares	390,000
80 million performance rights ⁽ⁱ⁾	-
Total Consideration	390,000
Goodwill (note 5.3)	533,153

- (i) Performance rights have been determined to have a nil value at acquisition date due to the likelihood of vesting criteria being met at date of acquisition being less than probable. Any recognition of expense in regard to vesting of these performance rights in future periods will be recognised in the statement of comprehensive income.

The goodwill arising on the Harvest acquisition is not deductible for tax purposes.

Acquisition costs of \$76,765 arose as a result of the transaction. These have been recognised as part of administrative expenses in the statement of comprehensive income.

The performance rights issued to the vendors of Harvest Technology are in three separate tranches, with vesting criteria based upon reaching specific gross revenue targets for the Harvest operations within 2-4 calendar years of the acquisition. Upon reaching these targets, each right will convert into one fully paid ordinary share. Further information surrounding these performance rights is disclosed in Note 8.1.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The main factor leading to the recognition of goodwill is:

- The presence of certain intangible assets, such as the assembled workforce of the acquired entity, and key industry contacts and experience, which do not qualify for separate recognition.

Impact of acquisition on the results of the Group

If the acquisition had occurred on 1 July 2018, revenue from continuing operations would have increased by \$10,000 and the loss from continuing operations of the Group would have increased by \$144,153.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 4 DISCONTINUED OPERATIONS

During April 2019, the Board of Directors decided to discontinue business pursuits in relation to the SAMS™ Visual Technology that is applied to wetsuits and water-sports products. Minimal movement on these accounts is anticipated in the coming period as SM8 still holds a royalties contract with a European-based swimwear manufacturer through until calendar 2020. Results for the Visual Technology segment have been classified as discontinued operations for the period.

Result for the year from discontinued operations

	2019	2018
Sales	37,768	57,222
Cost of sales	(29,515)	(13,830)
Selling and distribution	(2,827)	(11,460)
Mobile equipment	(686)	-
Marketing and business development	-	(63,020)
General and administrative	(135)	(7,406)
Personnel expenses	(43,819)	(136,875)
Professional fees	-	(18,009)
Research and development expenses	(50,238)	(5,750)
Other gains / (losses)	233	(4,097)
Net loss from discontinued operations	(89,219)	(203,225)
Income tax benefit	-	122,487
Loss after tax from discontinued operations	(89,219)	(80,738)

Cash flows from discontinued operations

	2019	2018
Cash flows from operating activities		
Receipts from customers	28,876	72,955
Cash paid to suppliers and employees	(93,994)	(298,805)
Payments for research and development	(50,238)	(5,750)
Income taxes received	122,487	-
Net cash received from / (used in) operating activities	7,131	(231,600)

As the Visual Technology segment was held within Shark Attack Mitigation Systems Pty Ltd (**SAMS**), a subsidiary entity of Smart Marine Systems, and that the SAMS entity also had costs attributable to Clever Buoy and Corporate segments, it is not possible to accurately define the opening and closing cash balances on hand relating to the Visual Technology segment. Additionally, no investing or financing activities occurred during either year noted above for the Visual Technology segment.

SECTION 5 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 goodwill for indicators of impairment in accordance with AASB 138 and concluded that impairment indicators did not exist at year end. An assessment for impairment of goodwill has still been undertaken under the requirements of AASB 136, details of this assessment are included in Note 5.3.

5.1 INTANGIBLE ASSETS

Information about intangible assets

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

Accounting Policy

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and 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

5.1 INTANGIBLE ASSETS (continued)

	SAMS Patents \$	SAMS Development \$	Clever Buoy Patents \$	Clever Buoy Development \$	Formation Costs \$	Total \$
Gross carrying amount						
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
Balance at 1 July 2018	-	-	10,750	808,031	1,253	820,034
Additions	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Balance at 30 June 2019	-	-	10,750	808,031	1,253	820,034
Amortisation						
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
Balance at 1 July 2018	-	-	223	710,184	1,253	711,660
Amortisation for the year	-	-	2,136	64,711	-	66,847
Balance at 30 June 2019	-	-	2,359	774,895	1,253	778,507
Carrying amounts						
Balance at 30 June 2018	-	-	10,527	97,847	-	108,374
Balance at 30 June 2019	-	-	8,391	33,136	-	41,527

The SAMS technology has been determined as a non-viable business route and was a discontinued operation in the current period.

5.2 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

5.2 PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant & equipment	Fixtures & fittings	Computer equipment	Mobile equipment	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
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
Additions	10,509	4,500	31,578	-	-	-	-	46,587
Disposals	-	(32,600)	(4,740)	(102,909)	(647)	(10,731)	-	(151,627)
Balance at 30 June 2019	450,744	9,445	47,180	-	112,205	-	-	619,574
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	82,634	2,494	4,692	10,497	43,117	444	-	143,878
Disposals	-	(5,980)	(4,740)	(32,988)	(647)	(8,226)	-	(52,581)
Balance at 30 June 2019	323,865	4,177	12,973	-	103,617	-	-	444,632
Carrying amounts								
Balance at 30 June 2018	199,004	29,882	7,321	80,418	51,705	2,949	-	371,279
Balance at 30 June 2019	126,879	5,268	34,207	-	8,588	-	-	174,942

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.3 GOODWILL

Accounting Policy

Goodwill acquired in a business combination is initially measured at cost being the excess of consideration transferred for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, is less than the carrying amount of goodwill, an impairment loss is recognised. When goodwill forms part of a cash-generating unit, or group of cash-generating units, and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill cannot be subsequently reversed in future periods.

Reconciliation of goodwill

	2019	2018
	\$	\$
Opening balance	-	-
Acquisition through business combination	533,153	-
Closing balance (note 3)	533,153	-

Assessment for Impairment

The Harvest Technology CGU has been tested for impairment utilising the value-in-use methodology to determine the recoverable amount for goodwill. Management is of the view that this methodology is most appropriate in determining the true future economic benefits expected to flow to the Group from the performance of the CGU. To determine the value, forecast cash flows from the CGU operations have been discounted using a calculated WACC.

The key assumptions used in the value-in-use calculations that management has based its cash flow projection on when determining the value in use of the Harvest CGU are as follows:

Earnings

The financial forecast process was developed based on revenue and expense expectations for an initial 2-year period, built around anticipated industry contracts along with the potential expansion of the business assets. This forecast period has been extended with nominal inflation for a further 3-year period. As the CGU does not have historical results, it has not been possible to weight expectations based on actual margins, however the forecasts have been prepared utilising industry norms for margins.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Discount rates

Discount rates reflect management's estimates of the time value of money and the risks specific to the CGU that are not already reflected in the cash flows. In determining appropriate discount rates, regard has been given to the weighted average cost of capital (WACC) of the entity as a whole adjusted for business risks specific to the CGU. The discount rate applied to the cash flow projections is 10.34%.

Inflation rates

Inflation rates have been determined using the Consumer Price Index for Australia.

Growth rates

The growth rates utilised give consideration to the industry outlook and current Australian market conditions. Cash flows beyond year 2 have been extrapolated at a 1.2% growth rate – utilising a conservative metric while the CGU is in an effective start-up stage to give a greater measure of comfort over the recoverable value accuracy. The growth rate utilised is currently below the long-term average growth rate for the energy, resources and renewables sectors.

SECTION 6 WORKING CAPITAL DISCLOSURES

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

6.1 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

	2019	2018
	\$	\$
Cash and cash equivalents in the statement of cash flows	2,172,384	466,642

(b) Reconciliation of cash flows from operating activities

Cash flows from operating activities		
Operating loss after tax	(1,454,431)	(2,238,553)
Adjustments for:		
Depreciation and amortisation	210,710	389,053
Equity-settled share-based payment transactions	34,130	393,403
Net finance expense	17	735
Fair value gain on Financial Asset held at FVTPL	(300,000)	-
Allowance for impaired receivables	10,420	41,510
Loss/ (gain) on disposal of property, plant and equipment	48,462	(419)
Impairment of intangible assets	-	2,415
Change in operating assets and liabilities:		
Change in trade and other receivables	(15,611)	(10,280)
Change in prepayments	12,583	(25,516)
Change in inventories	29,641	(21,909)
Change in other operating assets	13,508	(13,508)
Change in current tax assets	117,104	343,415
Change in trade and other payables	(83,055)	(73,938)
Change in interest bearing liabilities	44,120	51,802
Change in contract liabilities	30,000	-
Change in employee entitlements	13,641	16,285
Net cash used in operating activities	(1,288,761)	(1,145,505)

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 TRADE AND OTHER RECEIVABLES

Accounting Policy

Trade receivables are measured on initial recognition at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from seven to 30 days.

Impairment of trade receivables is continually reviewed and those considered uncollectable are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will be unable to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term, discounting is not applied in determining the allowance.

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.

	2019	2018
	\$	\$
Current		
Trade debtors ⁽¹⁾	63,362	50,199
Impairment allowance	(46,612)	(41,510)
	16,750	8,689
Other receivables	8,892	17,782
	25,642	26,471

⁽¹⁾ the average credit period on sales of goods and rendering of services is 30 days. An allowance has been made for estimated unrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to AASB 9 requirements.

Movement in impairment allowance

	2019	2018
	\$	\$
Balance at the beginning of the year	41,510	-
Impaired receivables written off	(5,514)	-
Impairment losses recognised on receivables	10,616	41,510
Balance at the end of the year	46,612	41,510

Due to limited availability of data on debtor payments and infrequent product sales, an assessment of expected credit losses for the current trade receivables of the Group is not possible. As such, the Group has assessed the recoverability of receivable balances based predominantly upon age of outstanding debt and communication with the debtor. As such, only government-sector based debtors remain as recoverable amounts.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 TRADE AND OTHER RECEIVABLES (continued)

Ageing of impaired receivables

	2019	2018
	\$	\$
Current	-	368
60-90 days	9,002	
Over 90 days	37,610	41,142
Balance at the end of the year	46,612	41,510

6.3 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.

During the period, the Board determined that the Visual Technology business was no longer viable and was discontinued. As a result, all inventory was written off and disposed.

	2019	2018
	\$	\$
Current		
Packing materials	-	5,155
Finished goods	-	14,461
Goods in transit	-	1,067
Sample stock	-	8,958
	-	29,641

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.4 FINANCIAL ASSETS HELD AT FAIR VALUES THROUGH PROFIT OR LOSS

Accounting Policy

Financial assets are recognised when the Group becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs.

For subsequent measurement, financial assets, other than those designated as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

The Group has elected to carry investments in equity securities of listed entities as Fair Value through Profit or Loss as the financial asset is not considered to be held within a business model whose objective is satisfied under the amortised cost or fair value through other comprehensive income models. Therefore, all income and expenses relating to fair value movements are recognised in profit or loss.

The fair value measurement of financial assets held at FVTPL is determined with reference to the requirements of AASB 13 *Fair Value Measurement*. Financial assets held at FVTPL are valued using market observable inputs and data as far as is possible. The fair value hierarchy is disclosed in note 8.2.

(a) Fair Value of Investments at period end

	Note	2019	2018
		\$	\$
Equity securities held in proprietary company	(i)	300,000	-

(b) Reconciliation of movements in fair value

	2019	2018
	\$	\$
Opening balance	-	-
Revaluation of investment after loss of significant influence	(ii) 300,000	-
Closing balance	300,000	-

- (i) The Group holds a 20% interest in the equity securities of Seabin Pty Ltd as at 30 June 2019. In previous years, this investment has been classified and accounted for as an investment in associate under the accounting requirements of AASB 128 *Investments in Associates and Joint Ventures*. Further details are disclosed in note 8.6.
- (ii) As at 30 June, there are no Level 1 observable inputs available for assessment of the value of equity securities held. On 26 August 2019, the entity entered into a binding agreement to sell these securities for A\$300,000, as detailed in note 8.7. In the absence of any other available inputs, this is considered an appropriate Level 2 input for the valuation of the equity securities.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.5 TRADE AND OTHER PAYABLES

Accounting Policy

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

	2019	2018
	\$	\$
Current		
Trade payables	88,129	1,920
Authorised government agencies	22,259	5,030
Non-trade payables and accrued expenses	49,535	118,366
	159,923	125,316

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 8.2.

6.6 OTHER LIABILITIES

Accounting Policy

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position.

As a result of the contracts which the Group enters into, a number of different liabilities are recognised on the Group's balance sheet. These include but are not limited to:

- Deferred income
- Share funds receipted in advance

	2019	2018
Note	\$	\$
Current		
Income received in advance	30,000	-
Ordinary share funds received in advance (i)	425,000	-
	455,000	-

- (i) Funds received in advance relate to capital raising announced during trading halt on 2 July 2019.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 7 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.

7.1 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 \$	
	2019	2018	2019	2018
Movement in ordinary shares on issue:				
On issue at 1 July	106,505,929	66,889,253	6,214,775	5,142,917
<i>Shares issued and expensed during the year:</i>				
Issue of fully paid shares for cash	134,400,509	36,416,676	3,017,847	1,092,500
Issue of fully paid shares in business acquisition	15,000,000	-	390,000	-
Issue of fully paid shares in lieu of consultancy fees	1,200,000	3,200,00	30,000	96,000
Issue of fully paid shares in lieu of capital raising costs	750,000	-	18,000	-
Capital raising costs	-	-	(290,924)	(116,642)
On issue at 30 June	257,856,438	106,505,929	9,379,698	6,214,775

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 8.1).

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 8.1 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

7.2 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 8.2.

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.

	2019	2018
	\$	\$
<i>Unsecured</i>		
Other borrowings	-	47,875
Premium funding facility	30,543	21,212
	30,543	69,087
Current	30,543	29,264
Non-current	-	39,823
	30,543	69,087

Reconciliation of movement in borrowings

	Loans from Director or KMP ⁽²⁾	Premium funding	Other borrowings
	\$	\$	\$
Balance at 1 July 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
Loans & borrowings received	-	-	-
Loans assumed on acquisition	7,223	-	-
Premium funding facility	-	42,745	-
Interest & establishment costs charged	-	1,374	1,666
Less repaid ⁽¹⁾	(7,223)	(34,788)	(49,541)
Balance at 30 June 2019	-	30,543	-

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

⁽²⁾ Refer to note 8.4 for further details.

SECTION 8 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 and performance rights as detailed in note 8.1. Significant judgement is required in relation to assessing the degree of probability associated with the non-market vesting conditions being met.

8.1 SHARE-BASED PAYMENTS

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. Where a share option has lapsed and the non-market vesting criteria has not been met, any previously recorded share-based payment expense is reversed through the statement of comprehensive income.

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

	2019	2018
	\$	\$
(a) Expensed in personnel expenses		
Options issued to Directors	-	149,538
Options issued to employees	26,298	198,090
Options held by employees lapsed unvested during the period	(22,168)	-
(b) Expensed in professional fees		
Options issued to consultants of the Company	-	36,000
Shares issued to consultants of the Company	30,000	-
(c) Recognised in capital raising costs		
Shares issued to consultants of the Company	18,000	-

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.1 SHARE-BASED PAYMENTS (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 2019, a summary of the Group options issued and not exercised, excluding those options issued free-attaching in share placements, are as follows:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at start of year	Granted during the year	Expired during the year	Balance at year-end	Vested and exercisable at year-end
12-May-16	12-May-16	30-Jun-19	25	5,000,000	-	(5,000,000)	-	-
31-May-16	26-Aug-16	30-Jun-19	25	125,000	-	(125,000)	-	-
7-Feb-17	7-Mar-17	31-Jan-20	20-30	7,000,000	-	(3,500,000)	3,500,000	3,500,000
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	8-Feb-21	5	1,000,000	-	-	1,000,000	1,000,000
22-Nov-18	22-Nov-18	28-Nov-21	5	-	1,000,000	-	1,000,000	1,000,000
22-Nov-18	22-Nov-19	29-Nov-21	8	-	1,000,000	-	1,000,000	1,000,000
22-Nov-18	22-Nov-20	30-Nov-21	12	-	1,000,000	-	1,000,000	1,000,000
Total				21,525,000	3,000,000	(8,625,000)	15,900,000	7,500,000
Weighted average exercise price (cents)				17.89	8.33	24.71	12.39	12.96
Weighted average remaining contractual life (years)				1.85	-	-	1.47	-

During the year ended 30 June 2019, 8,625,000 options were forfeited, cancelled or lapsed (2018: nil options). Options are settled by the physical delivery of shares.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.1 SHARE-BASED PAYMENTS (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)	Balance at start of year	Granted during the year	Balance at year-end	Vested and exercisable at year-end
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	8-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	-

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.1 SHARE-BASED PAYMENTS (continued)

Options (continued)

Key valuation assumptions made at valuation date for options still on issue at year-end are summarised below:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10
Exercise price (cents)	20	25	30	5	10	10	5	5	8	12
Grant date	7-Feb-17	7-Feb-17	7-Feb-17	1-Jun-17	23-Nov-17	10-Apr-18	10-Apr-18	22-Nov-18	22-Nov-18	22-Nov-18
Expiry date	31-Jan-20	31-Jan-20	31-Jan-20	1-Jun-20	31-Dec-20	31-Dec-20	8-Feb-21	28-Dec-21	29-Dec-21	30-Dec-21
Life of the options (years)	2.98	2.98	2.98	3.00	3.11	2.73	2.89	3.02	3.02	3.02
Volatility	90%	90%	90%	113.97%	85%	99.01%	99.01%	95.79%	95.79%	95.79%
Risk free rate	1.81%	1.81%	1.81%	1.66%	1.90%	2.14%	2.14%	2.00%	2.00%	2.00%

Vesting Conditions

Tranches 1 to 3 and Tranche 7 to 10

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

Tranche 4

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 4 options will vest.

Tranches 5 and 6

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

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.1 SHARE-BASED PAYMENTS (continued)

Performance shares

At 30 June 2019, a summary of the Group performance shares issued but not yet vested or exercised are as follows:

Note	Grant date	End of performance period	Scheme type	Balance at the start of the year	Granted during the year	Converted during the year	Balance at year-end	Vested and exercisable at year-end
(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:

- (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 SAMSTTM Licensing Agreement has already been achieved, the execution of a Clever BuoyTM Contract; or
 - (D) execution of a second SAMSTTM Licensing Agreement; or
 - (E) in the event that a Clever BuoyTM Contract has been achieved, execution of a SAMSTTM Licensing Agreement; or
 - (F) the execution of a second Clever BuoyTM Contract.
- (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 SAMSTTM Licensing Agreements have already been achieved, a third SAMSTTM Licensing Agreement; or
 - (D) in the event that two Clever BuoyTM Contracts have been achieved, execution of a third Clever BuoyTM Contract; or
 - (E) in the event that one SAMSTTM Licensing Agreement and one Clever BuoyTM Contract have been achieved, either a second SAMSTTM Licensing Agreement, or a second Clever BuoyTM 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.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.1 SHARE-BASED PAYMENTS (continued)

Performance rights

At 30 June 2019, a summary of the Group performance rights issued but not yet vested or exercised are as follows:

Note	Grant date	End of performance period	Tranche	Balance at the start of the year	Granted during the year	Converted during the year	Balance at year-end	Vested and convertible at year-end
(i)	26-Apr-19	26-Apr-21	1	-	25,000,000	-	25,000,000	-
(ii)	26-Apr-19	26-Apr-22	2	-	25,000,000	-	25,000,000	-
(iii)	26-Apr-19	26-Apr-23	3	-	30,000,000	-	30,000,000	-

Each performance right represents a right to be issued one ordinary share, with no exercise price payable on conversion, upon the achievement of the following revenue-based milestones:

- (i) Tranche 1 performance rights will vest upon Harvest Technology Pty Ltd achieving \$10,000,000 in revenue in one calendar year within two years of the acquisition of Harvest, being 26 April 2021.
- (ii) Tranche 2 performance rights will vest upon Harvest Technology Pty Ltd achieving \$20,000,000 in revenue in one calendar year within three years of the acquisition of Harvest, being 26 April 2022.
- (iii) Tranche 3 performance rights will vest upon Harvest Technology Pty Ltd achieving \$30,000,000 in revenue in one calendar year within four years of the acquisition of Harvest, being 26 April 2023.

All performance rights relate to the acquisition of Harvest Technology. The Directors assessed at acquisition date the likelihood the above vesting conditions will be met. The Directors determined that there was insufficient information at present to indicate that the performance rights would vest, and as such no value has been apportioned to them at acquisition date. There will be no remeasurement of the value of the performance rights granted from the valuation determined at grant date.

8.2 FINANCIAL INSTRUMENTS

Accounting Policy

Recognition and derecognition

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL);
- equity instruments at fair value through other comprehensive income (FVOCI);
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Subsequent remeasurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised costs using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under AASB 139.

8.2 FINANCIAL INSTRUMENTS (continued)

Accounting Policy (continued)

Impairment of financial assets

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces AASB 139's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Level 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Level 2').
- 'Level 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category whilst 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are initially measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Derivative financial instruments

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL).

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.2 FINANCIAL INSTRUMENTS (continued)

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 2018.

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.

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 and 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.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

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	
	2019	2018	2019	2018
	\$	\$	\$	\$
Currency				
US Dollars	44,535	54,081	7,726	-

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.2 FINANCIAL INSTRUMENTS (continued)

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, including external loans where the denomination of the loan is in a currency other than the currency of the borrower and adjusts their translation balance date for 500 basis point change in foreign currency rates.

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	
	2019	2018
	\$	\$
If AUD strengthens by 5% (2018: 5%)		
US dollar	1,841	1,148
Euro	-	3,009
If AUD weakens by 5% (2018: 5%)		
US dollar	(1,841)	(1,268)
Euro	-	(3,326)

The Group's sensitivity to foreign exchange rates has remained consistent in comparison with prior year mainly due to the maintained level of exposure from outstanding USD payables at year end.

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.

Interest rate risk sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the balance date.

At balance date, if interest rates had been 50 points higher or lower and all other variables were held constant, the Group's profit or loss would increase / (decrease) by \$10,842 / (\$10,842).

The Group's sensitivity to interest rates has decreased during the year mainly due to the reduction in variable rate debt instruments.

Credit risk management

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to credit risk from financial assets including cash and cash equivalents held at banks and trade and other receivables.

The Group has 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.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.2 FINANCIAL INSTRUMENTS (continued)

Credit risk management (continued)

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.

Non-derivative financial liabilities

The following table details 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.

The table include both interest and principal cash flows.

	Weighted average interest rate %	Less than 6 months \$	6 months to 1 year \$	1 – 5 years \$
30 June 2019				
Trade and other payables	-	159,923	-	-
Borrowings	9.15	21,532	9,011	-
		181,455	9,011	-
30 June 2018				
Trade and other payables	-	128,995	-	-
Borrowings	2.88	26,884	5,263	41,320
		155,879	5,263	41,320

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.2 FINANCIAL INSTRUMENTS (continued)

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).

	2019 Fair value \$	2018 Fair value \$	Fair value hierarchy	Valuation Technique
Seabin shares	300,000	-	Level 2	Shares valued at market offer price agreed by the Group

The Directors consider that the carrying amounts of cash and cash equivalents, current receivables, current payables, and current interest-bearing borrowings denominated in Australian Dollars, approximate their fair values.

8.3 CAPITAL AND OTHER COMMITMENTS

Accounting Policy

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

At 30 June 2019, the Group has commitments of:

	Note	2019 \$	2018 \$
Plant and Equipment			
Less than one year		2,184	-
Between one and five years		8,554	-
		10,738	-
Office rent			
Less than one year		114,936	61,041
Between one and five years		201,138	-
		316,074	61,041

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.4 RELATED PARTIES

Directors and other Key Management Personnel compensation included in 'personnel expenses' (note 2.4) comprises the following:

	Note	2019 \$	2018 \$
Short-term employee benefits		384,180	356,250
Post-employment benefits		31,676	30,546
Share-based payments		-	149,538
	2.4	415,856	536,334

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 \$115,000 (2018: \$84,000) and were based on normal market rates. At the reporting date \$9,500 (2018: \$16,000) was outstanding.

Ambec Consulting Pty Ltd, a company for which Mr Evans is a Director, received \$2,500 for strategic consulting services performed during the period (2018: nil). The balance outstanding at 30 June 2019 was \$2,500 (2018: nil).

Messrs Anderson and Jolly purchased an item of mobile equipment jointly during the financial year for \$15,000. The price for the disposal was negotiated through a third party appointed to accurately value the asset to ensure the transaction was on arms-length terms.

Included in the assumed liabilities of Harvest Technology at 26 April 2019 was a loan to KMP Paul Guilfoyle amounting to \$7,223. This amount was loaned to the entity on a short-term basis attracting nil interest.

8.5 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	
				2019 %	2018 %
Shark Attack Mitigation Systems Pty Ltd	Shark Deterrent Technologies	Australia	30 June	100	100
Clever Buoy LLC	Shark Deterrent Technologies	United States	30 June	100	100
Clever Buoy Australia Pty Ltd	Shark Deterrent Technologies	Australia	30 June	100	100
Harvest Technology Pty Ltd	Bespoke Subsea Technology Solutions	Australia	30 June	100	-

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.6 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	
			2019 %	2018 %
Seabin Pty Ltd	Marina cleaning technology	Australia	20%	20%

	2019 \$	2018 \$
Interests in associates	-	-
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 July	-	-
Investment	-	-
Share of loss for the year	-	-
Impairment of investment	-	-
Balance at 30 June	-	-

During the financial year, Mr Craig Anderson resigned from the Board of Seabin Pty Ltd and subsequent to this event, the Company received an offer for purchase of its 20% equity holding in Seabin for A\$300,000. For these reasons, it was determined that the Group no longer maintained significant influence over decision-making processes of Seabin, and as such, discontinued equity accounting treatment under the requirements of AASB 128 *Investments in Associates and Joint Ventures* and has accounted for the shares held under the requirements of AASB 9 *Financial Instruments*.

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. Upon derecognition as an investment in associate, there were continued losses made in the associate, therefore no loss or gain on derecognition occurred.

Refer to note 6.4 for valuation of the shares held as at 30 June 2019.

8.7 SUBSEQUENT EVENTS

Subsequent to year end, the Group commenced charter of the VOS Shine following the satisfaction of a Marine Warranty Survey and completion of Delivery Warranties in July 2019. Announcement of the charter agreement was disclosed to the market on 27 May 2019.

On 2 July 2019, the Company announced that it had placed 50,000,000 fully paid ordinary shares at a price of 2.2 cents per share to sophisticated investors to raise \$1.1 million of working capital.

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.7 SUBSEQUENT EVENTS (continued)

On 30 August 2019, the Group announced that Harvest Technology had been awarded a vessel supply contract with Fugro Australia Marine Pty Ltd for the Vos Shine to execute a geotechnical and geophysical campaign in the Bass Strait.

Additionally, on 30 August 2019, the Company announced that it had entered into an agreement with the Directors of Seabin Pty Ltd to sell the Company's 20% shareholding in Seabin for A\$300,000.

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.

8.8 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 2,750,000 unlisted options with various exercise prices. These options will only be issued when certain market-based criteria are met.

8.9 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 30 June 2019, the parent entity of the Group was Smart Marine Systems Limited.

	2019	2018
	\$	\$
Result of the parent entity		
Loss for the year	(1,125,579)	(2,687,315)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,125,579)	(2,687,315)
Financial position of parent entity at year end		
Current assets	2,153,668	589,189
Total assets	3,093,927	628,392
Current liabilities	(565,757)	(143,696)
Total liabilities	(565,757)	(143,696)
Total equity of the parent entity comprising of:		
Share capital	10,392,554	7,227,632
Reserves	430,991	956,274
Accumulated losses	(8,295,375)	(7,699,210)
Total equity	2,528,170	484,696

SMART MARINE SYSTEMS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.10 AUDITORS' REMUNERATION

	2019	2018
	\$	\$
HLB Mann Judd:		
Audit and review of financial reports	45,350	41,500
Non-audit services	-	-
TOTAL AUDITORS' REMUNERATION	45,350	41,500

8.11 ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations applicable to 30 June 2019

In the year ended 30 June 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period. Those which have a material impact on the Group are set out below.

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, measurements, impairment of financial assets and hedge accounting models.

The Group has adopted AASB 9 from 1 July 2018.

The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest.

A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to hold assets to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value.

All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ("OCI").

Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

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.

8.11 ADOPTION OF NEW AND REVISED STANDARDS (continued)

AASB 9 *Financial Instruments* (continued)

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.

When adopting AASB 9, the Group has applied transitional relief and opted not to restate prior periods as there was no material impact to profit or loss or net assets in those prior periods.

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.

The Group has adopted AASB 15 from 1 July 2018.

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 core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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 30 June 2018 has not been restated.

As a result of the above review, the Directors have determined that there is no material impact to profit or loss or net assets on adoption of this standard in the current or comparative years.

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 2019. Those which may have a material impact on the Group are set out below.

SMART MARINE SYSTEMS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.11 ADOPTION OF NEW AND REVISED STANDARDS (continued)

AASB 16 Leases

AASB 16 replaces AASB 117 *Leases*. AASB 16 eliminates the operating and finance lease classifications for lessees.

AASB 16 is applicable to annual reporting periods beginning on or after 1 July 2019.

Impact on operating leases

AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments.
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income.
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented in operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

The Group has identified the following leases where AASB 16 will have an impact, but has elected not to early adopt this standard and has not quantified the material effect of application for future periods:

- Office lease, Perth office
- Plant and equipment leases, Perth office
- Charter vessel lease – VOS Shine.

Impact on finance leases

The main differences between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual guarantees provided by the lessee or lessor.

AASB 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117.

On initial application, the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented with borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements.

8.11 ADOPTION OF NEW AND REVISED STANDARDS (continued)

Interpretation 23 *Uncertainty over Income Tax Treatments*

This interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), unused tax losses, unused tax credits and tax rates determined applying this interpretation.

Interpretation 23 is effective from annual reporting periods beginning on or after 1 July 2019.

Other than the above, the Directors have determined that 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.

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 2019 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. 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 2019.

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



DAVID McARTHUR
Non-Executive Chairman

Dated this 30th day of August 2019

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 2019, 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 2019 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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.

Key Audit Matter	How our audit addressed the key audit matter
Acquisition accounting Note 3 of the financial report	
During the year, the Group completed a business combination in relation to the acquisition of Harvest Technology Pty Ltd.	Our procedures included but were not limited to the following:
The acquisition accounting was considered to be a key audit matter as it is important for the users' understanding of the financial	<ul style="list-style-type: none">- Reviewing the acquisition agreement to gain an understanding of the key terms and conditions of the acquisition;

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

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

T: +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

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statements and involved the most audit effort and communication with those charged with governance.	<ul style="list-style-type: none"> - We determined whether the acquisition consideration had been appropriately determined under accounting standards; - We considered the appropriate classification of the transaction as either a business combination or an asset acquisition; - We obtained audit evidence that the net identifiable assets of the business were materially correct; - We considered the allocation of the excess of the consideration paid over the identifiable net assets acquired to goodwill; and - We assessed the adequacy of the Group's disclosures with respect to the acquisition.
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Goodwill impairment assessment

Note 5.3 of the financial report

<p>The Group has a goodwill balance of \$0.5 million in relation to the acquisition of Harvest Technology Pty Ltd during the year.</p> <p>The impairment assessment of goodwill was considered a key audit matter as it was considered material to the users' understanding of the financial statements and involved assumptions and estimates in relation to future cash flows.</p>	<p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> - We critically reviewed management's impairment assessment of the recoverable amount of the cash-generating unit to which the goodwill was allocated; - We considered the appropriateness of the determination of the cash-generating unit; - We assessed the reasonableness of the key assumptions underlying the value-in-use assessment as well as the appropriateness of the discount rate used and the mathematical accuracy of the model; - We performed sensitivity analyses in relation to certain aspects of the value-in-use calculation; and - We assessed the adequacy of the Group's disclosures in relation to the impairment assessment.
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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 2019, 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 within the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Smart Marine Systems Limited for the year ended 30 June 2019 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

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
30 August 2019



M R Ohm
Partner

CORPORATE GOVERNANCE STATEMENT

The 2019 Corporate Governance Statement is dated as at 30 June 2019 and reflects the corporate governance practices in place throughout the 2019 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; and
- 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 delegated 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; and
- Interpersonal 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 outsourced to external legal advisers.

At the date of this report, the Board comprised two 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 considered when 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 David McArthur and Rod Evans are 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. The Chairman appointed during financial year 2019 is the independent Non-Executive Director, David McArthur.

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.

Mr Guilfoyle is not considered independent due to his existing contractual relationship as an Executive and his substantial shareholding in the Company.

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) and may receive equity performance incentives but 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.

SMART MARINE SYSTEMS LIMITED

CORPORATE GOVERNANCE STATEMENT

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.

SMART MARINE SYSTEMS LIMITED

CORPORATE GOVERNANCE STATEMENT

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 Director 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; and
- 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)
- Mr Rod Evans (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 - no review was considered necessary in 2019;
- 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 appraisal of Board members and Managing Director; this occurred during 2019 financial year
- Succession planning for Board members and Managing Director;
- Approve the recommended succession planning for Key Management Personnel presented to the Committee by the Managing Director; and
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary.

SMART MARINE SYSTEMS LIMITED

CORPORATE GOVERNANCE STATEMENT

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 Smart Marine Systems' 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)
- Mr Rod Evans (Committee member)

The Committee met once 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 and employees 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; and
- 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;

SMART MARINE SYSTEMS LIMITED

CORPORATE GOVERNANCE STATEMENT

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 2019 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	9%	91%
Women and Men at senior management level	20%	80%
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.

While the ASX Principles recommend an ideal structure for the Remuneration and Nomination committees, they recognise that for smaller Boards it may not be possible to implement such a structure.

Only two of the four directors are considered independent. In view of the size of the Group 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. As the Group continues to grow, the composition of committees will continue to be assessed for alignment with the Corporate Governance Council recommendations.

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

This statement is current as at 30 August 2019 and has been approved by the Board.

SMART MARINE SYSTEMS LIMITED
STOCK EXCHANGE INFORMATION

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 31 July 2019:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	18	4,513	0.01
1,001 - 5,000	107	353,691	0.11
5,001 - 10,000	84	750,286	0.24
10,001 - 100,000	306	12,267,603	3.98
100,001 and over	201	294,480,245	95.66
Total	716	307,856,338	100.00

There were 267 holders of less than a marketable parcel of ordinary shares.

2. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
Mr Paul Joseph Guilfoyle	19,587,013	6.34
Gangus Pty Ltd <The JIG Family A/C>	19,318,182	6.25
Schaffer Corporation Limited	19,318,182	6.25
Ms Michelle Anne Anderson <The MCA A/C>	18,317,006	5.93
Mr Hamish Andrew Jolly <Jolly Family A/C>	18,271,552	5.92
Mr Kieran James Slee	13,666,666	4.42
Arab Capital Holdings Ltd	12,103,864	3.92
Peter Canaway Pty Ltd <Peter Canaway Superfund A/C>	11,363,636	3.68
Ms Linda Mary Shields	9,504,822	3.09
Mr Paul Joseph Cozzi	7,625,151	2.47
Scintilla Strategic Investments Ltd	7,500,000	2.43
Allied Superannuation Fund #2 Pty Ltd <Spud Murphy S/F>	5,194,805	1.68
Winter of Discontent Pty Ltd <The Providores S/F A/C>	5,194,805	1.68
Canary Capital Pty Ltd	4,983,157	1.61
Mr Sean Robert Muffet	3,914,286	1.27
Mr Michael McMahon & Mrs Susan McMahon <McMahon S/F A/C>	3,910,865	1.27
Sunset Capital Management Pty Ltd <Sunset Superfund A/C>	3,733,333	1.21
Mr Diranne Ian George Lee-Renwick <Air Cooled Productions A/C>	3,428,572	1.11
Celtic Capital Pty Ltd	3,300,000	1.07
Mr Andrew William Blackman	2,969,306	0.96

SMART MARINE SYSTEMS LIMITED
STOCK EXCHANGE INFORMATION

3. Unlisted options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
7-Feb-17	3,500,000	1	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	8-Feb-21	5
24-Apr-18	2,840,000	15	28-Feb-21	8
22-Nov-18	1,000,000	1	28-Nov-21	5
22-Nov-18	1,000,000	1	29-Nov-21	8
22-Nov-18	1,000,000	1	30-Nov-21	12
4-Dec-18	6,783,336	25	30-Nov-20	3

4. Unlisted performance shares

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. Unlisted performance rights

Grant date	Number	Number of holders	Expiry date
26-Apr-19	25,000,000	6	26-Apr-21
26-Apr-19	25,000,000	6	26-Apr-22
26-Apr-19	30,000,000	6	26-Apr-23

6. Substantial shareholders

The substantial shareholders in the company are set out below:

Shareholders	Number of Shares
Mr Paul Joseph Guilfoyle	19,587,013
Gangus Pty Ltd <The JIG Family A/C>	19,318,182
Schaffer Corporation Limited	19,318,182
Ms Michelle Anne Anderson <The MCA A/C>	18,317,006
Mr Hamish Andrew Jolly <Jolly Family A/C>	18,271,552

SMART MARINE SYSTEMS LIMITED

STOCK EXCHANGE INFORMATION

7. 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.