SMART MARINE SYSTEMS LIMITED

ABN 77 149 970 445

APPENDIX 4D AND INTERIM REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

CONTENTS

Rule 4.2A.3

APPENDIX 4D

Reporting period ("current period") **Half-year ended 31 December 2019**
Previous corresponding period **Half-year ended 31 December 2018**

Results for announcement to the market

	31 Dec 2019 $	31 Dec 2018 $	Change $	Change %
Revenue from ordinary activities	5,218,539	343	5,218,196	15,213,340%
Revenue from discontinued operations	(8,368)	21,503	(29,871)	(138.92%)
Loss from ordinary activities after tax	(1,453,587)	(788,620)	(664,967)	(84.32%)
Gain / (loss) from discontinued operations after tax	16,864	(30,605)	47,469	155.10%
Loss attributable to members	(1,436,723)	(819,225)	(617,498)	(75.38%)

Dividends	**Amount per share cents**	**Franked amount per share cents**
Final	Nil	Nil
Interim	Nil	Nil

	31 Dec 2019	**30 June 2019**
Net Tangible Asset Backing	(3.20 cents)	0.91 cents

Details of entities over which control has been gained or lost	**Date of gain of control**	**Contribution to the reporting entity's loss $**
Advanced Offshore Streaming Pty Ltd	6 December 2019	(815)

	Percentage of ownership interest held at end of period		Contribution to net profit / (loss)	
Details of associates	**31 Dec 2019**	**30 Jun 2019**	**31 Dec 2019 $**	**30 Jun 2019 $**
Seabin Pty Ltd	Nil	20.00%	Nil	Nil

Accounting Standards

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

Audit

The financial statements on which this report is based have been reviewed.

CORPORATE DIRECTORY

Directors
Paul Guilfoyle
Rod Evans
Marcus Machin

Company Secretary
Brett Tucker

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

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

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

Telephone: +61 1300 552 270

ASX Code
Shares: SM8

Legal Form of Entity
Public company

Country of Incorporation and Domicile
Australia

DIRECTORS' REPORT

The Directors of Smart Marine Systems Limited (the "**Company**") submit the Interim Report of the Group for the half-year ended 31 December 2019. In order to comply with the provisions of the *Corporations Act 2001,* the Directors report as follows.

DIRECTORS

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

Name
Executive
Paul Guilfoyle
Managing Director
Non-Executive
Rod Evans
Chair of the Audit and Risk Management Committee
Member of the Nominations and Remuneration Committee
Marcus Machin – Appointed 3 September 2019
Chair of the Nominations and Remuneration Committee
Member of the Audit and Risk Management Committee
Hamish Jolly – Resigned 3 September 2019
David McArthur – Resigned 3 September 2019

OPERATING AND FINANCIAL REVIEW

Group Overview

Smart Marine Systems Limited is an Australian marine technology company listed on the Australian Securities Exchange (**ASX:SM8**). The Company's product portfolio currently includes three key areas of activity:

1. **Harvest Technology** – dynamic solutions provider for offshore energy, resources and renewables sectors, specialising in subsea and asset integrity risk mitigation.
2. **Advanced Offshore Streaming –** technology solutions provider utilising proprietary algorithms and computing hardware enabling transfer of secure, encrypted high definition video, data and audio from remote or satellite locations to single point-to-point or global multi-cast locations with a dedication to ultra-low bandwidth consumption and quality of service.
3. **Clever Buoy™** – a marine monitoring platform and warning system.

The Company has continued its efforts in developing its products with the view to diversifying into global markets.

OPERATING AND FINANCIAL REVIEW (continued)

Highlights

Highlights include:

- Award of vessel supply contracts to Harvest Technology for two consecutive campaigns with Fugro Australia Marine (Fugro):
  - Fibre optic cable lay for Tiwi Island in Northern Territory
  - Geophysical / geotechnical campaign in the Bass Strait for Beach Energy
- Sale of 20% interest in Seabin Pty Ltd for $300,000 in November 2019.
- Acquisition of Advanced Offshore Streaming Pty Ltd following shareholder approval at the November AGM and raising of $4M via convertible notes.
- Successful completion of a rights issue in December with strong shareholder support.
- AOS products rolled out to Europe with new control centres under development in the UK and Netherlands.
- Profitable performance at the back end of the 6-month period.

Harvest Technology (Harvest)

The VOS Shine arrived in Australia in mid-September. It was immediately mobilised onto its inaugural project laying fibre optic cable between Tiwi Island and Darwin in the Northern Territory, on behalf of Fugro and Vocus. Since demobilising from this inaugural project at the end of September, the vessel has remained on contract to Fugro. Apart from a drydock of four (4) days in Fremantle for the purpose of installing a transducer pole, the vessel has been fully utilised for the remainder of the year in the Bass Strait on a geophysical / geotechnical survey campaign for Beach Energy.

The first half year results reflected significant costs associated with readying the vessel and transiting it from the Netherlands to Australia. Since commencing operations in Australia, the vessel has performed exceptionally well with positive feedback from clients. The Company continues to reinvest in the business.

Advanced Offshore Streaming (AOS)

On 10 October 2019 the Company announced that it had agreed to acquire a 100% interest in Advanced Offshore Streaming Pty Ltd. The acquisition was successfully executed on 6 December 2019. The business has been part of the Group for less than a month to the end of the period.

AOS products and technology are attracting considerable interest globally. The pipeline for opportunity remains strong, supported by the expansion of the Fugro neXt offering into Europe and prospective control centre developments in Asia and the US. Off the back of several enquiries, the Company opened a new office in Dubai with the intent of progressing potential opportunities in the Middle Eastern region.

AOS commenced working with Harvest in engaging and developing relationships with global satellite solution providers with a view to securing global partnership and reseller agreements. Whilst AOS products are presently focused on the oil and gas industry, it is becoming apparent that the AOS products also have potential application for development in other industries and markets, including but not limited to, satellite services, defence, government, agriculture, mining and emergency services.

Clever Buoy™

With the acquisition of AOS, the AOS Data Streaming Buoy product offering can potentially be coupled with, and rebranded to, the existing Clever Buoy™ product. The Company is developing new Clever Buoy products as a direct result of the AOS Technology application. Currently AOS has buoys operating in New Zealand, and a number of proposals submitted to various oil and gas operators in Australia based on enquiry and potential opportunity.

Business Outlook

The Shine is expected to continue to have high utilisation into 2020. The vessel will continue to be deployed on the Beach Energy project in the Bass Strait through to February. Directly following, a Fugro work-class FCV ROV will be installed on the vessel in Victoria prior to mobilisation to the Cooper Energy ROV campaign, also in the Bass Strait. Harvest is investigating various opportunities in Southern waters to follow-on from the Cooper project, with other potential scopes available in Northern waters mid-year.

The Harvest team will continue to provide support resources to AOS in the form of finance, commercial, HSEQ and engineering to enable the AOS team to focus on product and business development. Additional resources will be employed within AOS during Q1 2020 to manage increased development activity and accelerate conversion of potential opportunities. Harvest and AOS together are working on a potential partnership and reseller arrangement with a global satellite services provider.

The Company is committed to the improvement of the Clever Buoy™ and the Group will continue development of the associated technology to realise the potential long-term commercialisation of the Clever Buoy™ solution.

The key priority for the Group moving into 2020 is to build on momentum with an ongoing pipeline of vessel projects, technology product development and delivery, with keen emphasis on revenue growth and diversification by customer segment, geography and product.

Corporate

In September 2019, the Board appointed Mr. Marcus Machin as a Non-Executive Director of the Company. Marcus has extensive international experience in finance, shipping and oil and gas, and the Board believes that his experience and networks will further strengthen and complement the Board.

Mr. Paul Guilfoyle was appointed Group Managing Director of Smart Marine Systems in September 2019.

Mr. Hamish Jolly and Mr. David McArthur resigned as Directors of the Company in September 2019.

Mr. Brett Tucker was appointed as Company Secretary on 28 January 2020. Mr. David McArthur and Mr. Jordan McArthur resigned as Company Secretaries on 28 January 2020.

During the period, the group raised $1,100,000 via a placement in July 2019. In November, the Company raised $4,000,000 via the issuance of 4,000,000 convertible notes. The notes have an interest rate of 9% per annum and are convertible at a price of $0.022 per share at the noteholders election. The notes have a maturity date of 28 November 2024. A further $525,932 was raised in December via a rights issue with another $87,500 being received by the Company by way of option conversions.

Financial Results

For the six months ended 31 December 2019, the Group incurred a loss after income tax from continuing and discontinued operations of $1,436,723 (six months ended 31 December 2018: loss from continuing and discontinued operations of $819,225).

The Group had a net cash outflow for the period of $1,475,818 (six months ended 31 December 2018: outflow of $307,045).

The results included the full initial costs of bringing the vessel to Australia from the Netherlands, plus overhead expenses prior to the vessel commencing work mid-September. Since commencing operations, the vessel has been fully utilised, and the business has been operating profitably in the back part of the six-month period. With the introduction of the new accounting leasing standard, a proportion of the costs of returning the vessel to the Netherlands at the end of the lease have been recognised in this period.

DIVIDENDS

The Directors recommend that no dividend be provided for the six months ended 31 December 2019 (six months ended 31 December 2018: Nil).

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Smart Marine Systems Limited support, and have adhered to, the principles of good corporate governance. The Group's corporate governance statement is contained in the 30 June 2019 Annual Report and can be viewed on the Company's website.

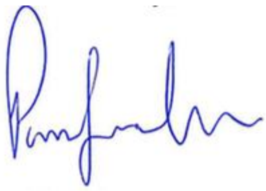
SUBSEQUENT EVENTS

Other than as disclosed in Note 19, there have been no matters or circumstances that have arisen since the end of the reporting period that have affected or may affect, significantly, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the *Corporations Act 2001* requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year report. This Independence Declaration is set out on the following page and forms part of this Directors' Report for the half-year ended 31 December 2019.

Signed in accordance with a resolution of Directors.



PAUL GUILFOYLE
Managing Director
Perth, Western Australia
28 February 2020

HLB MANN JUDD
ADVISORY AND ACCOUNTING

AUDITOR'S INDEPENDENCE DECLARATION

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

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

Perth, Western Australia	**M R Ohm**
28 February 2020	**Partner**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 $	30 June 2019 $
Assets			
Cash and cash equivalents		697,006	2,172,384
Trade and other receivables	8	4,067,812	25,642
Prepayments		191,722	95,183
Financial assets held at FVTPL		17,590	300,000
Total current assets		**4,974,130**	**2,593,209**
Intangible assets	9	8,290,615	41,527
Property, plant and equipment	10	228,573	174,942
Goodwill		533,153	533,153
Right-of-use assets	11	4,701,150	-
Other bonds and deposits		586,278	54,362
Total non-current assets		**14,339,769**	**803,984**
Total assets		**19,313,899**	**3,397,193**
Liabilities			
Trade and other payables	12	2,319,487	159,923
Borrowings	13	189,063	30,543
Current tax liabilities		165,684	-
Lease liabilities	14	2,476,524	-
Employee entitlements		190,425	103,723
Other liabilities		-	455,000
Deferred consideration	4	693,802	-
Total current liabilities		**6,034,985**	**749,189**
Borrowings	13	3,496,353	-
Lease liabilities	14	1,530,707	-
Deferred consideration	4	641,815	
Provisions	15	1,244,677	-
Deferred tax liabilities	7	1,490,667	-
Total non-current liabilities		**8,404,219**	**-**
Total liabilities		**14,439,204**	**749,189**
Net assets		**4,874,695**	**2,648,004**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2019

	Note	31 December 2019 $	30 June 2019 $
Equity			
Issued capital	16	11,017,824	9,379,698
Unissued capital	4	1,500,000	-
Reserves		936,970	432,391
Accumulated losses		(8,580,099)	(7,164,085)
Total equity attributable to equity holders of the Company		**4,874,695**	**2,648,004**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 $	31 December 2018 $
Continuing operations			
Revenue from contracts with customers	5	5,217,533	-
Other income		1,006	343
		5,218,539	**343**
Expenses			
Cost of sales		(3,692,496)	-
Marketing and business development		(12,603)	(52,067)
Personnel expenses		(1,325,290)	(228,146)
General and administration		(421,593)	(185,606)
Professional fees		(315,313)	(133,931)
Depreciation and amortisation		(1,418,020)	(95,375)
Research and development		(6,046)	(163,457)
Lease liability finance expenses		(107,561)	-
Other finance expenses		(69,014)	(1,861)
Other losses		(4,992)	(360)
Loss before income tax from continuing operations		**(2,154,389)**	**(860,460)**
Income tax benefit	7	700,802	71,840
Net loss for the year from continuing operations		**(1,453,587)**	**(788,620)**
Gain / (loss) after tax from discontinued operations	3	16,864	(30,605)
Net loss for the period		**(1,436,723)**	**(819,225)**
Other comprehensive income			
Foreign currency translation differences on foreign operations		**460**	**744**
Total comprehensive loss for the period		**(1,436,263)**	**(818,481)**
Earnings per share from continuing operations			
Basic and diluted loss per share (cents per share)	6	(0.47)	(0.70)
Earnings per share from discontinued operations			
Basic earnings / (loss) per share (cents per share)	6	0.01	(0.03)
Diluted earnings / (loss) per share (cents per share)	6	-	(0.03)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		Attributable to equity holders of the Company						
	Note	Share capital	Unissued capital	Share-based payments reserve	Convertible note reserve	Foreign currency translation reserve	Accumulated losses	Total
		$	$	$	$	$	$	$
Balance at 1 July 2019		9,379,698	-	430,991	-	1,400	(7,164,085)	**2,648,004**
Loss for the period		-	-	-	-	-	(1,436,723)	**(1,436,723)**
Foreign exchange translation difference on foreign operations		-	-	-	-	-	-	**460**
Total other comprehensive income for the period		**-**	**-**	**-**	**-**	**460**	**-**	**460**
Total comprehensive loss for the period		**-**	**-**	**-**	**-**	**460**	**(1,436,723)**	**(1,436,263)**
Issue of ordinary shares		1,625,932	-	-	-	-	-	**1,625,932**
Unissued shares forming deferred consideration		-	1,500,000	-	-	-	-	**1,500,000**
Exercise of options		87,500	-	-	-	-	-	**87,500**
Vesting of options		-	-	4,734	-	-	-	**4,734**
Equity component of convertible notes	**13**	-	-	-	499,385	-	-	**499,385**
Capital raising costs		(75,306)	-	-	-	-	-	**(75,306)**
Current tax benefit recorded directly in equity		-	-	-	-	-	20,709	**20,709**
Total transactions directly recorded in equity		**1,638,126**	**1,500,000**	**4,734**	**499,385**	**-**	**20,709**	**3,662,954**
Balance at 31 December 2019		**11,017,824**	**1,500,000**	**435,725**	**499,385**	**1,860**	**(8,580,099)**	**4,874,695**

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	31 December 2019 $	31 December 2018 $
Cash flows from operating activities		
Receipts from customers	1,674,833	27,060
Cash paid to suppliers and employees	(4,173,076)	(597,788)
Interest paid	(139,111)	(1,861)
Interest received	1,006	343
Payments for research and development	-	(170,430)
Income taxes paid	(1,168)	-
Net cash used in operating activities	**(2,637,516)**	**(742,676)**
Cash flows from investing activities		
Payments for plant and equipment	(33,777)	(10,509)
Proceeds from sale of plant and equipment	12,455	-
Proceeds from disposal of interest in associate	300,000	-
Payment for acquisition of subsidiary	(3,500,000)	-
Acquisition of cash in business combination	257,392	-
Net cash used in investing activities	**(2,963,930)**	**(10,509)**
Cash flows from financing activities		
Proceeds from issue of share capital	1,200,932	508,750
Payment of capital raising costs	(107,656)	(37,586)
Proceeds from issue of convertible notes	4,000,000	-
Proceeds from exercise of options	87,500	-
Payments of lease liabilities	(838,202)	-
Proceeds from borrowings	1,000,000	-
Repayment of borrowings and premium funding facility	(1,216,946)	(25,024)
Net cash from financing activities	**4,125,628**	**446,140**
Net decrease in cash and cash equivalents	(1,475,818)	(307,045)
Cash and cash equivalents at 1 July	2,172,384	466,642
Effect of exchange rate fluctuations on cash held	440	330
Cash and cash equivalents at 31 December	**697,006**	**159,927**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of Preparation

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

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

The interim financial statements do not include the full disclosures of the type normally included in the full financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report. It is recommended that the interim financial statements be read in conjunction with the full financial report for the year ended 30 June 2019 and any public announcements made by Smart Marine Systems Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding half year except for the impact of the new Standards and Interpretations effective 1 July 2019 disclosed in Note 1.4. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

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

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

1.2 Statement of Compliance

The interim financial statements were approved by the Board of Directors on 28 February 2020.

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

1.3 Significant Accounting Judgements and Estimates

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

The judgements, estimates and assumptions applied to the interim financial statements, including the key sources of estimation uncertainty were the same as those that applied to the Group's last annual financial report for the year ended 30 June 2019, except for the impact of the new Standards and Interpretations effective 1 July 2019 as disclosed in Note 1.4 and for business combinations as disclosed in Note 4.

1.4 Application of New and Revised Standards

Standards and Interpretations applicable to 31 December 2019

In the period ended 31 December 2019, the Directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current reporting periods beginning on or after 1 July 2019.

As a result of this review, the Group has initially applied AASB 16 and Interpretation 23 from 1 July 2019.

Due to the transition method chosen by the Group in applying AASB 16, comparative information throughout the interim financial statements has not been restated to reflect the requirements of the new standards.

AASB 16 *Leases*

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

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

Impact on operating leases

AASB 16 changes 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 future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and an interest portion (presented in operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free periods) 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.

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 has present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowings, will be presented in a separate line for lease liabilities.

The Group has adopted AASB 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application, being 1 July 2019.

1.4 Application of New and Revised Standards (continued)

Application as at 1 July 2019

	$
Operating lease commitments disclosed as at 30 June 2019	326,812
Discounted using the lessee's incremental borrowing rate at the date of initial application	294,854
Lease liability recognised as at 1 July 2019	**294,854**

The recognised right-of-use assets relate to the following types of assets:

	$
Property, plant and equipment leases	9,144
Building leases	285,710
Right-of-use assets recognised as at 1 July 2019	**294,854**

Practical expedients applied

In applying AASB 16 for the first time, the Group has not required utilisation of any practical expedients that are permitted by the standard.

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 assets or liabilities applying the requirements of AASB 112 based on taxable profit (or tax loss), unused tax losses, unused tax credits and tax rates determined applying this interpretation.

Under the requirements of Interpretation 23 *Uncertain Tax Positions*, the Directors have determined it prudent not to disclose carry forward tax losses from prior periods in the calculation of deferred tax assets as it has not yet been determined whether these losses are accessible to the Group under the Continuity of Ownership Tests and Same Business Tests. The Group will be undertaking the relevant tests in the six-month period to 30 June 2020 to make an appropriate determination of the carry forward losses available. The total value of carry forward tax losses the Group's uncertain position relates to is $960,980.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 January 2020. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue not yet adopted on the Group and therefore no material change is necessary to the Group's accounting policies.

1.5 Going Concern

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

Notwithstanding the fact that the Group incurred a loss of $1,436,723 for the period ended 31 December 2019, and a net cash outflow from operating activities amounting to $2,637,516, the Directors are of the opinion that the Company is a going concern for the following reasons:

The subsea operations of the Group commenced in the six months to 31 December 2019, and with this commencement there were unexpected delays that pushed back on expected timetables for works. In the final two months of the financial year, the Harvest business unit achieved profitability as operations had improved to cash flow positivity after initial delays.

During the second quarter of the financial year, the Group acquired Advanced Offshore Streaming Pty Ltd (**AOS**). AOS is a proven profitable business unit and as such is anticipated to contribute to the profitability of the Group as a whole. As such, the Directors are confident that the AOS remote communications operations will be cashflow positive in the second half of the financial year.

Outstanding receivables as at 31 December 2019 are with large entities who are service providers to blue-chip energy sector clients and as such recoverability of debts is not considered uncertain. A total of $1,912,531 of the amounts outstanding were received on 3 January 2020.

Given the above financial position of the Group, the Directors have reviewed the Group's financial position and forecast cash flows and reasonably expect that the Group will be able to generate sufficient future cashflows from operations to meet future costs within its business plans for at least the next 12 months from the date of approval of these financial statements. Additionally, the Directors have the ability to seek additional capital should this be required. However, should the Group be unable to raise such additional funds and/or results are materially less than expected, there exists a material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

2 SEGMENT REPORTING

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance.

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

The Group currently operates in three distinct segments:

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

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 segment generates income from subsea infrastructure and assets in the energy, resources and renewables sectors.

The remote communications technology segment generates income from the provision of data encryption and compression services to clients operating in offshore and remote environments.

Discontinued Operations

The results of the Group's visual deterrent technology operations have been classified as a discontinued operation as disclosed in Note 3.

Segment assets and liabilities

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

	Assets		Liabilities	
	31 Dec 2019 $	**30 Jun 2019 $**	**31 Dec 2019 $**	**30 Jun 2019 $**
Clever Buoy marine monitoring technology	126,691	197,155	-	(41,974)
Subsea and asset integrity risk mitigation	9,361,868	575,589	(8,494,109)	(143,194)
Remote communications technology	8,778,011	-	(2,511,136)	-
Total segment assets and liabilities	**18,266,570**	**772,744**	**(11,005,245)**	**(185,168)**
Corporate and other segment assets/liabilities	1,047,329	2,624,449	(3,433,959)	(564,021)
Total	**19,313,899**	**3,397,193**	**(14,439,204)**	**(749,189)**

2 SEGMENT REPORTING (continued)

Segment revenue and results

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

	Revenue [1]		Segment profit / (loss)	
	31 Dec 2019 $	**31 Dec 2018 $**	**31 Dec 2019 $**	**31 Dec 2018 $**
Clever Buoy shark detection technology	30,000	-	(98,566)	(478,631)
Subsea and asset integrity risk mitigation	5,067,643	-	(1,682,105)	-
Remote communications technology	119,890	-	4,430	-
Total for continuing operations	**5,217,533**	**-**	**(1,776,241)**	**(478,631)**
SAMS visual technology (discontinued operation)	(8,368)	21,503	16,864	(30,604)
Total for continuing and discontinued operations	**5,209,165**	**21,503**	**(1,759,377)**	**(509,235)**
Finance income			1,006	343
Central and administration expenses			(339,555)	(380,312)
Finance expense			(39,599)	(1,861)
Loss before tax			**(2,137,525)**	**(891,065)**
Income tax benefit			700,802	71,840
Loss after tax			**(1,436,723)**	**(819,225)**

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

Changes to the basis of segmentation have occurred since 31 December 2018 due to the discontinuation of the Visual Technology segment and commencement of operations in both the Subsea and Asset Integrity Risk Mitigation segment and the Remote Communications Technology segment, resulting from the acquisitions of Harvest Technology and Advance Offshore Streaming respectively. There have been no changes for the measurement basis of the Clever Buoy segment.

3 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 receives final payments for contracts in existence at completion of the previous financial period. Results for the Visual Technology segment have been classified as discontinued operations for the period.

Results for the period from discontinued operations

	31 Dec 2019 $	31 Dec 2018 $
Sales	(8,368)	21,503
Cost of sales	-	(2,561)
Selling and distribution	(1,396)	(2,281)
Mobile equipment	(48)	(58)
Marketing and business development	-	(1,333)
General and administrative	-	(292)
Personnel expenses	-	(43,818)
Research and development expenses	-	(1,692)
Other gains / (losses)	26,676	(73)
Loss after tax from discontinued operations	**16,864**	**(30,605)**

Cash flows from discontinued operations

	31 Dec 2019 $	31 Dec 2018 $
Cash flows from operating activities		
Receipts from customers	1,801	22,568
Cash paid to suppliers and employees	(3,559)	(112,264)
Payments for research and development	-	(1,692)
Net cash used in used in operating activities	**(1,758)**	**(91,388)**

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.

4 BUSINESS COMBINATION

In December 2019, the Group acquired 100% of the voting equity instruments of Advanced Offshore Streaming Pty Ltd (AOS), a company that has developed proprietary algorithms and computing hardware enabling the transfer of secure, encrypted high-definition video, data and audio from remote or satellite locations to a single point to point or global multi-cast locations with dedication to ultra-low bandwidth consumption and quality of service. This technology is currently deployed in remote control, communication, automation and monitoring applications across the global oil and gas and marine industries, and has capacities that extend to mining, defence and agricultural sectors, both on land and at sea. The principal reason for the acquisition was to expand the portfolio of technology services that the Group offers and to enhance and improve the capabilities of existing technologies within the Company's portfolio.

Assets acquired and liabilities assumed at date of acquisition

The Group has identified all the assets and liabilities in respect of the acquisition but is yet to finalise the measurement of their respective fair values as at acquisition date. As such, the acquisition has been provisionally accounted for in accordance with AASB 3. Any potential adjustments to provisional amounts, and the identification of newly identifiable assets and liabilities, will be made within the measurement period.

The provisional fair value of identifiable assets and liabilities acquired in the business combination are as follows:

	Fair Value $	Acquisition Adjustments $	Closing Value $
Cash and Cash Equivalents	257,392	-	257,392
Trade Receivables and Contract Assets	307,152	-	307,152
Property, Plant and Equipment	75,043	-	75,043
Right-of-use Assets	34,667	-	34,667
Intangible Assets (Intellectual Property)[1]	-	8,261,006	8,261,006
Financial Assets at FVTPL	19,630	-	19,630
Trade and Other Payables	(94,143)	-	(94,143)
Borrowings	(10,386)	-	(10,386)
Income Tax Payable	(165,684)	-	(165,684)
Employee Entitlements	(100,261)	-	(100,261)
Deferred Tax Liability[2]	-	(2,213,346)	(2,213,346)
Lease Liabilities	(35,453)	-	(35,453)
Net assets acquired	**287,957**	**6,047,660**	**6,335,617**

1) The difference arising between the fair value of net assets on acquisition and consideration paid has been identified as intellectual property and recorded as an identifiable intangible asset.

   An external valuation was performed on the AOS business as a separate component of the due diligence and negotiation process for the acquisition. The valuation was based upon discounted cash flows for the forecast operations of the business unit. As this provided a basis for the fair value of the consideration in the transaction, it predicates the existence of an intangible asset, being the intellectual property, when assessed against the net assets of the business at acquisition date.

   The main factor reinforcing the recognition of an intangible asset of intellectual property is that the business has developed proprietary algorithms that enable the provision of the specific telecommunications services that AOS provides, and as such qualified for separate recognition as an intangible asset. These algorithms are the differentiator that enable AOS to provide the profitable service that it currently performs, rather than any particular finished product or service capable of performance by other parties.

4 BUSINESS COMBINATION (continued)

Assets acquired and liabilities assumed at date of acquisition (continued)

2) A deferred tax liability has been recognised in respect of the taxable temporary difference arising from the valuation of Intellectual Property. The adjustment in value of the assets in AOS has resulted in a taxable temporary difference between the fair value recognised in the financial statements and the tax base of the asset, and as such, a deferred tax liability has been recognised. The deferred tax liability has been calculated at the Company's current tax rate of 27.5%.

Fair value of consideration transferred

	Consideration $
Initial consideration	
Cash consideration on acquisition	3,500,000
Deferred consideration	
Present value of deferred cash consideration – 12 months[1]	693,802
Present value of deferred share consideration – 12 months[2]	641,815
Deferred share consideration – 12 months[2]	750,000
Deferred share consideration – 36 months[2]	750,000
Total consideration paid and payable	**6,335,617**

1) Deferred cash consideration payments have been discounted to present value, taking into account a weighted average cost of capital of 8.1%.
2) A total of 18,156,499 shares will be issued in each deferred consideration settlement, totalling 36,312,998 shares to be issued. The price that the consideration shares will be allotted at, calculated per terms of the acquisition agreement as disclosed in the notice of AGM dated 25 October 2019, is $0.0413 per share.

Acquisition costs

Acquisition costs of $40,150 arose as a result of the transaction. These have been recognised as part of administrative expenses in the statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

If the acquisition had occurred on 1 July 2019, revenue from continuing operations would have increased by $902,238 and the loss from continuing operations of the Group would have decreased by $92,590.

5 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) Rendering of services

Clever Buoy – Marine Monitoring 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.

*Harvest Technology (**Harvest**) – 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 above.

The Group has determined that the majority of contractual works Harvest engages 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.

*Advanced Offshore Streaming (**AOS**) – Remote communications technology services*

Sales revenue from rendering of services in relation to the provision of remote communications technologies to customers operating in offshore and remote locations 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.

The Group has determined that the majority of contractual works that AOS engages in incorporate components of satisfaction of performance obligations at a point in time as well as satisfaction of performance obligations over time. All point in time obligations refer to preparatory works to enable compatibility of customer operations with the requisite systems for service provision. After initial preparatory works, performance obligations are satisfied over time with the continuing fulfilment of telecommunication services relevant to customers.

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.

	31 Dec 2019 $	31 Dec 2018 $
Revenue earned over time		
Rendering of subsea services	5,067,643	-
Rendering of communications services	119,890	-
Rendering of marine monitoring services	30,000	-
Total Revenue	**5,217,533**	**-**

During the period to 31 December 2019, no revenue was derived from the satisfaction of performance obligations at a point in time.

6 EARNINGS PER SHARE

Basic and diluted earnings / (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 and dilutive earnings / (loss) per share from continuing and discontinued operations to 31 December 2019 has been based on the earnings/ (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 with an exercise price lower than the share price at period end, convertible equity instruments and performance rights. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from operations.

Earnings / (loss) per share attributable to ordinary shareholders

	31 Dec 2019 $	31 Dec 2018 $
Net loss for the year from continuing operations	(1,453,587)	(788,620)
Net profit / (loss) for the year from discontinued operations	16,864	(30,605)
Net loss for the year attributable to ordinary shareholders	**(1,436,723)**	**(819,225)**
Issued ordinary shares at 1 July	257,856,438	106,505,929
Effect of shares issued	51,644,860	6,018,478
Weighted average number of ordinary shares at period end	**309,501,298**	**112,524,407**
Dilutive effect of options[1]	6,266,667	-
Dilutive effect of convertible notes[1]	181,818,182	-
Weighted average diluted number of ordinary shares at period end	**497,586,147**	**112,524,407**
Basic and diluted loss per share from continuing operations	(0.47)	(0.70)
Basic earnings / (loss) per share from discontinued operations	0.01	(0.03)
Diluted earnings / (loss) per share from discontinued operations	-	(0.03)

1 At 31 December 2019, 6,266,667 options were considered to have a dilutive effect on earnings per share, comprising 3,866,667 options having an exercise price of 3 cents per share and 2,400,000 options having an exercise price of 5 cents per share. The SM8 share price as at 31 December 2019 was 5.2 cents per share. Additionally, 4,000,000 convertible notes were considered to have a dilutive effect on earnings per share as they were convertible at period end into 181,818,182 ordinary shares.

19,340,000 options (2018: 37,148,336 options), 17,398,710 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.

7 INCOME TAX EXPENSE

7.1 Amounts recognised in profit or loss

	31 December 2019 $	31 December 2018 $
Income tax (expense) / benefit		
Current tax (expense) / benefit	(1,168)	71,840
Deferred tax benefit	701,970	-
Total income tax benefit	**700,802**	**71,840**

7.2 Amounts recognised directly in equity

	31 December 2019 $	31 December 2018 $
Current tax benefit	20,709	-
Total amounts recognised directly in equity	**20,709**	**-**

7.3 Reconciliation of effective tax rate

	31 December 2019 $	31 December 2018 $
Loss for the period including discontinued operations	(2,137,525)	(819,225)
Total income tax benefit	-	(71,840)
Loss excluding income tax	**(2,137,525)**	**(891,065)**
Income tax at the Australian tax rate of 27.5% (2018: 27.5%)	(587,819)	(245,043)
Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:		
Entertainment	2,505	317
Share-based payments	1,302	(750)
Research and development benefit	-	(26,424)
Share of loss of associate	-	-
Difference in foreign income tax rates	582	49
Other permanent differences	16,369	45,876
Under / (over) provision in prior years	-	-
Previously unrecognised deferred tax assets brought to account	(133,741)	-
Deferred tax assets not brought to account	-	154,135
	(700,802)	**(71,840)**

7 INCOME TAX EXPENSE (continued)

7.4 Recognised deferred tax assets and liabilities

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

	31 December 2019 $	30 June 2019 $
Deferred tax liabilities (DTLs)		
Prepayments	52,724	26,175
Right-of-use assets	1,292,816	-
Investments	-	78,473
Intellectual property	2,213,346	-
Other temporary differences	611	-
	3,559,497	**104,648**
Off-set of deferred tax assets	(2,068,830)	(104,648)
Net deferred tax liability recognised	**1,490,667**	**-**
Deferred tax assets (DTAs)		
Tax losses[1]	420,438	1,072,407
Property, plant and equipment	89,447	2,050
Capital raising costs	78,417	110,275
Employee entitlements	25,901	19,291
Leases	1,101,989	-
Provision for restoration	342,286	-
Other temporary differences	10,352	105,147
	2,068,830	**1,309,170**
Off-set of deferred tax liabilities	(2,068,830)	(104,648)
Net deferred tax assets unrecognised [2]	**-**	**1,204,522**

[1] Under the requirements of Interpretation 23 *Uncertain Tax Positions*, the Directors have determined it prudent not to disclose carry forward tax losses from prior periods in the calculation of deferred tax assets as it has not yet been determined whether these losses are accessible to the Group under the Continuity of Ownership Tests and Same Business Tests. The Group will be undertaking the relevant tests in the six-month period to 30 June 2020 to make an appropriate determination of the carry forward losses available. The total value of carry forward tax losses the Group's uncertain position relates to is $960,980.

[2] For the year ended 30 June 2019, no deferred tax asset was brought to account due to the justification that as the Group was not profitable it was not reasonable to account for a deferred tax asset that was assumed to not be capable of utilisation. It was further determined that budgeted expectations were not reasonable grounds to recognise the future tax benefits.

8 TRADE AND OTHER RECEIVABLES

Current	31 Dec 2019 $	30 Jun 2019 $
Trade receivables[1]	3,391,538	63,362
Impairment allowance	(19,935)	(46,612)
	3,371,603	16,750
Contract assets – accrued revenue receivable	696,209	8,892
	4,067,812	**25,642**

[1] The average credit period on 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	31 Dec 2019 $	30 Jun 2019 $
Balance at the beginning of period	46,612	41,510
Impaired receivables written off	-	(5,514)
Impaired receivables reversed	(26,677)	-
Impairment losses recognised on receivables	-	10,616
Balance at the end of the period	**19,935**	**46,612**

9 INTANGIBLE ASSETS

	Clever Buoy Patents	Clever Buoy Development	Formation Costs	Intellectual Property	Total
	$	$	$	$	$
Gross carrying amount					
Balance at 1 July 2018	10,750	808,031	1,253	-	**820,034**
Additions	-	-	-	-	**-**
Balance at 30 June 2019	10,750	808,031	1,253	-	**820,034**
Additions	-	-	-	-	**-**
Acquired through business combination	-	-	-	8,261,006	**8,261,006**
Balance at 31 December 2019	**10,750**	**808,031**	**1,253**	**8,261,006**	**9,081,040**
Amortisation					
Balance at 1 July 2018	223	710,184	1,253	-	**711,660**
Amortisation for the period	2,136	64,711	-	-	**66,847**
Balance at 30 June 2019	**2,359**	**774,895**	**1,253**	-	**778,507**
Amortisation for the period	1,074	10,844	-	-	**11,918**
Balance at 31 December 2019	**3,433**	**785,739**	**1,253**	-	**790,425**
Carrying amounts					
Balance at 30 June 2019	8,391	33,136	-	-	**41,527**
Balance at 31 December 2019	**7,317**	**22,292**	**-**	**8,261,006**	**8,290,615**

10 PROPERTY, PLANT AND EQUIPMENT

	Plant & equipment	Fixtures & fittings	Computer equipment	Mobile Equipment	Software	Leasehold improvements	Hire and Demo equipment	Total
	$	$	$	$	$	$	$	$
Gross carrying amount								
Balance at 1 July 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**
Additions	-	5,695	20,444	-	-	-	7,638	**33,777**
Acquired through business combination	-	21,374	6,323	-	-	-	162,379	**190,075**
Disposals	(190,976)	-	(4,372)	-	-	-	-	**(195,348)**
Balance at 31 December 2019	**259,768**	**36,514**	**69,575**	**-**	**112,205**	**-**	**170,017**	**648,078**
Depreciation								
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 1 July 2019	**323,865**	**4,177**	**12,973**	**-**	**103,617**	**-**	**-**	**444,632**
Depreciation for the period	25,617	1,654	7,309	-	2,613	-	7,841	**45,034**
Acquired through business combination	-	5,305	1,113	-	-	-	108,614	**115,032**
Disposals	(180,821)	-	(4,372)	-	-	-	-	**(185,193)**
Balance at 31 December 2019	**168,661**	**11,136**	**17,023**	**-**	**106,230**	**-**	**116,455**	**419,505**
Carrying amounts								
Balance at 30 June 2019	126,879	5,268	34,207	-	8,588	-	-	**174,942**
Balance at 31 December 2019	91,107	25,378	52,552	-	5,975	-	53,562	**228,573**

11 RIGHT-OF-USE ASSETS

	Plant & equipment	Vessels	Buildings	Total
	$	$	$	$
Gross carrying amount				
Balance taken up 1 July 2019	9,144	-	285,710	**294,854**
Additions	-	5,694,294	-	**5,694,294**
Acquired via business combination	-	-	42,547	**42,547**
Exchange differences	-	20,516	-	**20,516**
Balance at 31 December 2019	**9,144**	**5,714,810**	**328,257**	**6,052,211**
Amortisation				
Balance at 1 July 2019	-	-	-	-
Amortisation for the period	951	1,306,595	53,523	**1,361,069**
Acquired via business combination	-	-	7,879	**7,879**
Exchange differences	-	(17,887)	-	**(17,887)**
Balance at 31 December 2019	**951**	**1,288,708**	**61,402**	**1,351,061**
Carrying amounts				
Balance at 30 June 2019	-	-	-	-
Balance at 31 December 2019	**8,193**	**4,426,102**	**266,855**	**4,701,150**

12 TRADE AND OTHER PAYABLES

	31 Dec 2019	30 Jun 2019
Current	**$**	**$**
Trade payables	1,602,704	88,129
Authorised government agencies	399,621	22,259
Non-trade payables and accrued expenses	317,162	49,535
	2,319,487	**159,923**

13 BORROWINGS

	31 Dec 2019 $	30 Jun 2019 $
Current		
Interest payable on loans	33,534	-
Premium funding facility	145,143	30,543
Other borrowings	10,386	-
	189,063	**30,543**
Non-current		
Convertible Notes	3,496,353	-
Total Borrowings	**3,685,416**	**30,543**

During the period, the Company raised $4,000,000 from the issue of 4,000,000 convertible notes on 28 November 2019 for the acquisition of Advanced Offshore Streaming Pty Ltd. Details of the convertible notes are as disclosed below. All convertible notes issued in November remain unconverted as at period end.

Terms of convertible notes on issue

- Interest rate: 9% per annum
- Maturity date: 28 November 2024
- Conversion price: 2.2 cents per share on or before the maturity date

Accounting treatment of convertible notes

The net proceeds received from the issue of the convertible notes has been split between the financial liability component and an equity component, representing the residual amount attributable to the capacity to convert the financial liability in equity in the Company as follows:

Convertible Note Reconciliation	31 Dec 2019 $	30 Jun 2019 $
Opening balance	-	-
Notes issued during the period	4,000,000	-
Equity component of note recognised in equity	(499,385)	-
Transaction costs	(10,062)	-
Effective interest expense	39,334	-
Less actual interest expense payable	(33,534)	-
	3,496,353	**-**

The equity component of $499,385 has been credited to equity.

The liability component is measured at amortised cost. The effective interest expense for the year of $39,334 is calculated by applying an effective interest rate of 12.45% to the liability component of the notes. Actual interest payable as at 31 December 2019 is $33,534. The difference between the carrying amount of the liability component at the date of issue and the amount reported in the statement of financial position at 31 December 2019 represents the effective interest rate less interest paid to date.

The value of the equity and liability components were determined at the date the instruments were issued.

14 LEASE LIABILITIES

	31 December 2019 $	30 June 2019 $
Balance recognised on application of AASB 16	294,854	-
Lease inception	4,380,076	-
Liabilities assumed through business combination	35,454	-
Principal repayments	(838,202)	-
Interest expense	107,561	-
Exchange differences	27,488	-
Closing balance	**4,007,231**	**-**
Classification		
Current liabilities	2,476,524	-
Non-current liabilities	1,530,707	-
	4,007,231	**-**

15 PROVISIONS

	31 December 2019 $	30 June 2019 $
Opening balance	-	-
Recognition of provision for restoration requirements in regard of right-of-use assets[1]	1,242,556	-
Exchange differences	2,121	-
Closing balance	**1,244,677**	-

1) Within the terms of the vessel charter lease, the Group has a requirement to restore the VOS Shine to the state that it was received in and additionally that it be returned to the port of choosing by the charterer, Vroon Offshore Services B.V., who are domiciled in the Netherlands. The provision above is representative of the costs associated with the expected work required to restore the vessel to the condition it was received in and to sail back to the Netherlands.

16 CAPITAL AND RESERVES

Share capital

	Ordinary shares			
	Number of shares		Amount in $	
	31 December 2019	30 June 2019	31 December 2019	30 June 2019
On issue at 1 July	**257,856,438**	**106,505,929**	**9,379,698**	**6,214,775**
Shares issued and expensed during the period:				
Issue of fully paid shares for cash	73,906,022	134,400,509	1,625,932	3,017,847
Issue on conversion of options	2,916,669	-	87,500	-
Issue of fully paid shares in business acquisition	-	15,000,000	-	390,000
Issue of fully paid shares in lieu of capital raising costs	-	750,000	-	18,000
Issue of fully paid shares in lieu of consultancy fees	-	1,200,000	-	30,000
Capital raising costs	-	-	(75,306)	(290,924)
On issue at 31 December	**334,679,129**	**257,856,438**	**11,017,824**	**9,379,698**

17 SHARE-BASED PAYMENT PLANS

No share-based payment arrangements were entered into during the period.

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

	31 December 2019 $	31 December 2018 $
(a) Expensed in personnel expenses		
Options previously issued to employees – vesting expense	4,734	19,441
Options lapsed unvested – reversal of vesting expense	-	(22,168)

2,916,669 options were exercised during the period at an exercise price of $0.03 per share to raise $87,500. The options exercised were free-attaching options that had been issued in prior periods, and as such, did not have an expense value attached to them.

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

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

During the period ended 31 December 2019, no options were forfeited or expired.
Since the end of the reporting period, 466,667 shares have been issued as a result of the exercise of options.

18 FINANCIAL INSTRUMENTS

Fair value measurement

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

Measured at fair value on recurring basis

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

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

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

At reporting date, the Group valued it's holding of Bitcoin acquired through a business combination using Level 1 inputs. There were no financial liabilities measured at fair value.

Not measured at fair value

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

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

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

19 SIGNIFICANT EVENTS AFTER BALANCE DATE

Post period end, a total of 466,667 shares have been issued on exercise of options to raise a total of $14,000.

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

DIRECTORS' DECLARATION

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

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

      (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year then ended; and

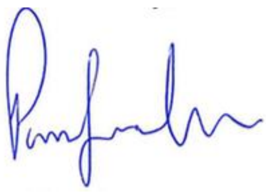
      (ii) complying with Australian Accounting standards, the *Corporations Regulations 2001,* professional reporting requirements and other mandatory requirements.

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

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 303(5) of the *Corporations Act 2001* for the half-year ended 31 December 2019.

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



PAUL GUILFOYLE
Managing Director

Dated this 28th day of February 2020

HLB MANN JUDD
ADVISORY AND ACCOUNTING

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

Report on the Condensed Interim Financial Report

Conclusion

We have reviewed the accompanying interim financial report of Smart Marine Systems Limited ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

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

Material uncertainty related to going concern

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

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing

Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
28 February 2020

M R Ohm
Partner