

Announcement to ASX
ASX Code: SM8

10 October 2019

Smart Marine Systems set to acquire Advanced Offshore Streaming Pty Limited

Highlights

- Smart Marine Systems has agreed to acquire Advanced Offshore Streaming Pty Ltd, a market leader in remote communications technology
- Advanced Offshore Streaming (“AOS”) is currently working both directly and indirectly with a number of Australian Blue Chip Clients within the resource sector
- AOS reported an unaudited revenue of \$2.5M with pre-tax earnings of \$0.9M for year end June 30 2019
- Smart Marine Systems will further deploy the AOS technology through the Harvest Technology business which will accelerate market penetration

10 October 2019: Perth-based Smart Marine Systems Limited (**ASX:SM8**) (“**Smart Marine Systems**” or “**Company**”) is delighted to announce it will extend its services within Australia and globally with the signing of a conditional binding share sale agreement to acquire a 100% interest in Advanced Offshore Streaming Pty Ltd (“**AOS**”) (“**Acquisition**”).

AOS has developed proprietary software algorithms that allow the secure encrypted transfer of data, including high definition video and audio, from offshore or remote locations via satellite at much lower bandwidths than previously possible. This represents a significant technological advancement towards allowing secure high quality, real time voice, video and data transfers from remote locations.

AOS is successfully operating in offshore environments in Australia, New Zealand and Europe, where it has a number of existing blue chip clients, including Fugro and Beach Energy.

AOS’s unaudited revenue for the 12 months to 30 June 2019 was approximately \$2.5 million and net profit before tax approximately \$0.9 million.

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The transaction is complementary to the SM8 business and presents a number of strategic growth opportunities for both SM8 and AOS including:

1. An improved version of Clever Buoy technology with increased signal and data transmission capability, ensuring real time communication solutions between offshore Data Buoys and the mainland;
2. Expansion in opportunities for commercialisation of Clever Buoy technology across different sectors for a variety of purposes beyond marine detection and monitoring;
3. Installation and servicing of Clever Buoy technology in remote locations in conjunction with SM8's wholly owned subsidiary, Harvest Technology Pty Limited ("Harvest"); and
4. Significantly improved data transfer capability for subsea and asset integrity risk mitigation activities conducted by Harvest.

AOS fits with SM8's overall strategy of using technology and innovation to create safer and more cost effective operations in an offshore environment. AOS technology is already being used in this environment and with Harvest's extensive connections in the offshore industry, believes the technology has potential global applications across industry.

Growth Strategy:

SM8 aims to expand AOS's reach of video streaming to vessels, rigs, platforms and buoys on a global basis as well as continue research and development including the field of artificial intelligence combined with advanced camera technologies which can be deployed into SM8 service offerings and capabilities.

With further development, the Company believes the AOS software potentially has market application outside the offshore industry including:

- Emergency communications;
- Defense Applications;
- Airline Industry;
- Satellite Applications; and
- Remote land-based communities and operations.

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Key Terms of the Acquisition:

- Subject to satisfaction of the Conditions Precedent (as set out below), completion is anticipated to occur in November 2019.
- SM8 will acquire 100% of the shares in AOS for consideration of:
 1. An initial cash payment of A\$3.5 million, to be paid on completion (**Initial Cash Consideration**);
 2. Further cash payments of \$750,000 each, payable:
 - 12 months following completion; and
 - 24 months following completion,(together, **Deferred Cash Payments**); and
 3. Deferred Consideration Shares, to be issued as follows:
 - The number of Deferred Consideration Shares to be issued 12 months after completion that is the lesser of 30,000,000 Deferred Consideration Shares and the number of Deferred Consideration Shares calculated as follows (**Tranche 1 Deferred Consideration Shares**):

$$\text{DCS} = \frac{750,000}{3\text{-Day VWAP}}$$

where:

DCS means number of Deferred Consideration Shares; and

3-Day VWAP means the volume weighted average price of Shares for the 3 trading days immediately prior to the settlement date; and

- The number of Deferred Consideration Shares to be issued 36 months after completion that is the lesser of 30,000,000 Deferred Consideration Shares and the number of Deferred Consideration Shares calculated as follows (**Tranche 2 Deferred Consideration Shares**):

$$\text{DCS} = \frac{750,000}{3\text{-Day VWAP}}$$

where:

DCS means number of Deferred Consideration Shares; and

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

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- It is a key Condition Precedent to the Agreement that the two vendors of AOS (Mr Jimmy Dean and Mr Jaron Warburton) (**Vendors**) enter into employment agreements with SM8 (or its nominee) for a minimum term of 3 years, with each vendor being subject to industry standard restraint of trade and non-competition obligations. The Vendors are unrelated parties of the Company. Each Vendor will receive remuneration on similar terms to SM8's senior executives, which will include short-term incentives based on key performance indicators and long-term security based incentives. Payment of the Deferred Cash Payment and issue of Deferred Consideration Shares will be subject to each Vendor remaining employed by SM8 (or its nominee) at the relevant payment date or vesting date.
 - The Deferred Cash Payments are expected to be funded out of SM8's existing cash reserves at the relevant payment dates (or SM8 may need to raise further equity in the event that cash reserves are not sufficient).
 - Other Conditions Precedent are:
 - there being no material adverse change in the circumstances of AOS or SM8 prior to completion;
 - AOS confirming that the Acquisition will not give any counterparty to a material agreement with the Company a right to terminate such material agreement;
 - SM8 obtaining all regulatory approvals required by the Corporations Act, ASX Listing Rules or other applicable laws in relation to:
 - the Acquisition;
 - the issue of Notes (detailed below); and
 - the issue of Deferred Consideration Shares to the Vendors;
 - ASX granting SM8 a waiver from listing rule 7.3.2 to permit SM8's notice of meeting seeking shareholder approval to issue the Deferred Consideration Shares up to 3 years after completion;
 - SM8 obtaining shareholder approval of the issue of Deferred Consideration Shares to the Vendors (subject to granting of the waiver referred to above); and
 - SM8 completing the Note issue.
 - In the event a waiver of listing rule 7.3.2 is not granted, the issuance of the Deferred Consideration Shares will be subject to shareholder approval and in the event shareholder approval is not obtained, the Company will be required to make cash payments of \$750,000 each to satisfy the obligations to issue the Tranche 1 Deferred Consideration Shares and the Tranche 2 Deferred Consideration Shares (subject to each Vendor remaining employed by SM8 (or its nominee) at the relevant payment date).

- The Vendors provide a number of warranties and representations in relation to AOS's business, operations and intellectual property, as well as indemnities which are considered industry standard for an agreement of this nature.
- The effect of the Acquisition on the issued capital of SM8 is set out below:

	Pre-acquisition (currently on issue)	Impact of acquisition (maximum to be issued to Vendors)	Post acquisition
Shares	307,856,338		307,856,338 ¹
Performance Rights	80,000,000 ²		80,000,000
Deferred Consideration Shares		60,000,000 ⁶	60,000,000
Performance Shares	17,398,710 ³		17,398,710
Convertible Note Shares			181,818,182 ⁴
Options ⁵	28,523,336		28,523,336

1. Excludes any shares which may be issued as a result of the proposed entitlement offer (per below);
2. Comprising:
 - a. 25,000,000 Tranche 1 performance rights;
 - b. 25,000,000 Tranche 2 performance rights; and
 - c. 30,000,000 Tranche 3 performance rights;
3. Comprising:
 - a. 8,699,355 listed Class B Performance shares; and
 - b. 8,699,355 listed Class C Performance shares;
4. This is the maximum number of shares if all convertible notes are converted as set out below under the heading "Capital Raising".
5. Comprising:
 - a. 3,500,000 unlisted options exercisable at \$0.20 to \$0.30 cents each on or before 31 January 2020;
 - b. 400,000 unlisted options exercisable at \$0.05 each on or before 1 June 2020;
 - c. 6,783,336 unlisted options exercisable at \$0.03 each on or before 30 November 2020;
 - d. 8,000,000 unlisted options exercisable at \$0.10 each on or before 31 December 2020;
 - e. 1,000,000 unlisted options exercisable at \$0.05 each on or before 8 February 2021;
 - f. 5,840,000 unlisted options exercisable at \$0.08 each on or before 28 February 2021;
 - g. 1,000,000 unlisted options exercisable at \$0.05 each on or before 28 November 2021;
 - h. 1,000,000 unlisted options exercisable at \$0.08 each on or before 29 November 2021; and
 - i. 1,000,000 unlisted options exercisable at \$0.12 each on or before 30 November 2021.
6. Deferred Consideration Shares to be issued to the Vendors of AOS on the terms described in this announcement.

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Capital Raising:

The Initial Cash Consideration of A\$3.5 million will be raised by way of:

1. Secured Convertible Notes (**Notes**) to be issued (subject to shareholder approval) on the following terms:
 - Four million convertible notes with a face value of \$1 each to be issued to Schaffer Corporation Limited and Gangus Pty Ltd ATF The JIG Family Trust (both of which are non-related parties of the Company) (**Noteholders**) (two million convertible notes each);
 - Interest rate of 9% per annum, payable quarterly in arrears;
 - Conversion price for the Notes is fixed at 2.2 cents per Share;
 - The maximum number of conversion shares, if all convertible notes are converted, is 181,818,182;
 - Maturity date is 5 years after issue;
 - Upon Maturity, the Noteholders may elect to convert to Shares or require payment in full;
 - SM8 has early redemption rights under the Note subscription deeds, subject to SM8:
 - providing the Noteholders not less than 30 days' and no more than 60 days' notice of the date of such redemption (**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); and
 - making full payment of all interest which would have been payable up to the Maturity Date and granting the Noteholders one option (with an exercise price of 2.2c per Share and expiry date of the Maturity Date) for each note redeemed); and
 - Repayment of the Notes is secured over the assets and undertakings of SM8 and its wholly owned subsidiaries, Harvest Technology Pty Ltd, Clever Buoy Australia Pty Ltd, and, subject to completion of the Acquisition, Advanced Offshore Streaming Pty Ltd.
2. The Company intends to raise approximately \$520,000 (net of costs) via an entitlement offer to eligible shareholders at 2.2 cents per Share post completion of the Acquisition. The Company is currently finalising the terms of the entitlement offer and will announce the terms (including a record date) in due course.

The additional A\$1.02 million raised over the Initial Cash Consideration will be used to provide working capital, fund entry into new markets and accelerate technology development.

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Shareholder Meeting:

As outlined above, the Company intends to hold a shareholder meeting in November for approval of all necessary shareholder resolutions required to complete the Acquisition and Capital Raising. In this regard, the Company anticipates lodging a notice of meeting with ASX and providing details of the entitlement offer shortly.

“We are very excited to announce the acquisition of AOS as it represents a massive leap forward for the future development of our existing offerings. AOS is paramount to the long-term potential of the Clever Buoy Technology, and the realisation of real-time remote environment communications and data transfer for our clients”, comments Paul Guilfoyle, Managing Director of Smart Marine Systems. “This technology currently forms the backbone of groundbreaking remote inspection services in Australia and will allow us the opportunity to further develop into the resource sector with a range of offshore Data Buoy activities. ”

Ends

For further information please contact:

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About Smart Marine Systems

Smart Marine Systems Limited (**ASX:SM8**) is an Australian marine technology company that has developed and commercialised award-winning patented products. Smart Marine Systems portfolio includes Harvest Technology (**Harvest**) and Clever Buoy™. Harvest is a bespoke subsea technology solutions provider for the energy, resources, and renewables sectors. Harvest combines a range of cutting-edge technologies combined with in-house products to provide unique and customised solutions. Harvest operates and manages offshore supply vessels, as well as offering air diving services, environmental monitoring systems, subsea robotics, and is continually working to develop other innovative value-add technologies to the marine sector. Clever Buoy™ is a marine monitoring platform that autonomously distinguishes large sharks from other species and sends warning signals to shore for human intervention response.

To learn more please visit: www.smartmarinesystems.com

About Advanced Offshore Streaming

Advanced Offshore Streaming (**AOS**) has developed proprietary algorithms and computing hardware which enables the transferring 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.

AOS's technology is currently deployed in remote control, communication, automation and monitoring applications across oil and gas and marine industries globally. This technology is industry agnostic and can be utilised in mining, defence and agricultural sectors both on land and at sea.

Product range includes Remote Inspection, Monitoring systems, Ultralow bandwidth video/data streaming, Advanced Vessel management systems (AVMS), Offshore live streaming buoys, HD Multi-frequency camera and visions solutions, and remote area communications systems.

To learn more please visit: www.advancedoffshorestreaming.com

Forward Looking Statements

This announcement includes forward-looking statements. These forward-looking statements are based on SM8's expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of SM8, which could cause actual results to differ materially from such statements. SM8 makes no undertaking to subsequently update or revise the forward-looking statements made in this announcement, to reflect the circumstances or events after the date of this announcement.

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