

STRUCTURAL MONITORING SYSTEMS PLC

REGISTERED NUMBER 0483 4265



**STRUCTURAL
MONITORING
SYSTEMS**

COMPARATIVE VACUUM MONITORING (CVM™) TECHNOLOGY

SMN



Listed

[SMSYSTEMS.COM.AU](https://www.smsystems.com.au)



HALF YEAR FINANCIAL REPORT 31 DECEMBER 2020

CONTENTS

Directors' Report.....	2
Condensed Consolidated Statement of Comprehensive Income.....	6
Condensed Consolidated Statement of Financial Position.....	7
Condensed Consolidated Statement of Cash Flows.....	8
Condensed Consolidated Statement of Changes in Equity.....	9
Notes to the Half-Year Financial Statements.....	10
Directors' Declaration	21
Independent Auditors' Review Report	22

Directors

William Rouse
Non-Executive Chairman

Michael Reveley
Non-Executive Director

Stephen Forman
Non-Executive Director

Sam Wright
Non-Executive Director

Chief Executive Officer

Toby Chandler

Company Secretary

Sam Wright

Registered and Corporate Office

Suite 116, 1 Kyle Way
Claremont WA 6010
Australia

Telephone: +61 8 6364 0899

Facsimile: +61 8 9467 6111

Email: sms@smsystems.com.au

Website: www.smsystems.com.au

Registered Office United Kingdom

The Old Court, 8 Tufton Street
Ashford, Kent TN23 1QN
United Kingdom

Canada office

15/1925 Kirschner Road
Kelowna BC.
Canada V1Y 4N7

Share Registry

Computershare Investor Centre Pty Ltd
GPO Box 2975
Melbourne VIC 3001

Enquiries (within Australia) 1300 850 505

Enquiries (from Overseas) +61 3 9415 4000

www.investorcentre.com/contact

Statutory Auditors

Elderton Audit (UK) Pty Ltd
Level 2, 267 St George's Terrace
Perth WA 6000
Australia

Stock Exchange Listing

Australian Securities Exchange
Home Exchange: Perth, Western Australia

ASX Code

Shares (CDI's) SMN

Important Notices

Structural Monitoring Systems PLC (the Company) is incorporated in the United Kingdom under the laws of England and Wales. The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisitions of shares (including substantial holdings and takeovers).

Structural Monitoring Systems PLC

Directors' Report

The Directors submit their report for the half-year ended 31 December 2020.

DIRECTORS

The names of the Group's directors in office during the half-year and until the date of this report are as below:

William Rouse	Non-Executive Chairman
Michael Reveley	Non-Executive Director
Stephen Forman	Non-Executive Director
Sam Wright	Non-Executive Director (appointed 14 October 2020)
Terry Walsh	Non-Executive Director (resigned 14 October 2020)

Directors were in office for the entire period unless stated otherwise.

REVIEW OF OPERATIONS

Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX: SMN) is pleased to provide a review of operations for the half-year period.

Manufacturing – avionics/audio ("AEM")

AEM's platform performed admirably in the face of unprecedented market conditions resulting from the Covid-19 pandemic, with top-line revenue for the first 6 months of the current financial year of \$A8.480 million v \$A8.763 million (-3.23%) for the same period in the prior year. Normalised EBITDA for the first 6 months was ~\$A1.305 million v \$A1.570 million the prior period. Revenue is conservatively budgeted for the second half of the current year at \$A7.575 million (vs \$A10.560 million in the prior period), which would produce a full-year revenue result of \$A16.055 million. In comparison with the prior period the Canadian dollar has depreciated against the Australian dollar by 5.1% which together with the Covid-19 pandemic has negatively impacted AEM's performance.

CVM™ ("SMS")

FAA/IP Approval Progress:

The 6 months to December 2020 saw considerable progression in the Group's first CVM™ application to pivotal Supplemental Type Certificate ("STC") status.

In November, the Federal Aviation Administration ("FAA"), via their Transport Directorate – New York Aircraft Certification Office ("NYACO"), approved and formally released the Test Plan and Issue Paper. This allowed Structural Monitoring Systems Plc ("SMS" or "the Company") and the Company's industry partners, Delta Engineering ("DE") and Sandia National Laboratories ("Sandia"), to schedule and commence the final testing required for STC approval related to the GoGo B737-800 2Ku Wi-Fi programme.

DE and Sandia completed pre-test trials to confirm equipment set-up, and conformed specimens required to begin probability-of-detection ("PoD") testing parameters as specified in the Test Plan. The testing process commenced in early-December and is being conducted at both DE & Sandia facilities - with each testing circa-50% of each of the four (4) coupon configurations, allowing for direct, real time comparison of key relevant data. The PoD performance test calls for CVM™ sensors to be applied to aluminum coupons that are designed and manufactured in accordance with the actual aircraft structure.

Structural Monitoring Systems PLC

Directors' Report

REVIEW OF OPERATIONS

CVM™ (“SMS”)

During testing, these coupons are then continuously fatigued with high-load stress simulation until crack formation occurs – typically taking 30k to 60k cycles for crack formation to be detected. Each coupon typically takes about a day to process, plus some additional documentation and set-up time. There are approximately 70 independent coupons available for testing. The statistical analysis of the derived data will determine the exact number of specimens ultimately required.

To satisfy FAA requirements, live-stream remote test witnessing by the NYACO is being provided at both DE's & Sandia's facilities in Florida and New Mexico, respectively. This limits travel time and potential Covid-19 complications, while the final test report is also being written as the data is collated, rather than post testing completion, to further save time. As highlighted previously, the full testing process and subsequent write-up is expected to be completed within 60-90 days, before submission to the FAA for final review.

As part of the requirements for STC issuance, SMS received approval of the Engineering Repair/Authorization order by Delta Air Lines (“**DAL**”) for kit installation. Subsequently, SMS successfully completed the FAA required installation conformity phase on the prototype B737-800 at Victorville, CA in late-January. This was a significant and critical milestone.

Whilst the final IP approval related to the GoGo 737-800 Wi-Fi 2ku STC will be aircraft-type specific for this application, importantly - the fundamentals of the IP will be readily transferrable to both other B737 family aircraft types, as well as other non-WiFi applications specific to the B737. This would include the current aft-pressure bulkhead (“**APB**”) inspection for which CVM™ is currently being advanced as a commercially viable alternative means of compliance - i.e. the likely next sequential approval for CVM™.

In summary, notwithstanding the extremely challenging global operating environment, SMS and the Company's key strategic counterparties remain on-track to deliver a highly significant milestone within the time parameters that have been previously communicated – that being Q1-2021. CVM™ continues to progress to a commercial and technical “ready status”, which will allow the industry to replace costly and typical ground-based hangar inspections via the formal commercial adoption of CVM™ protocols.

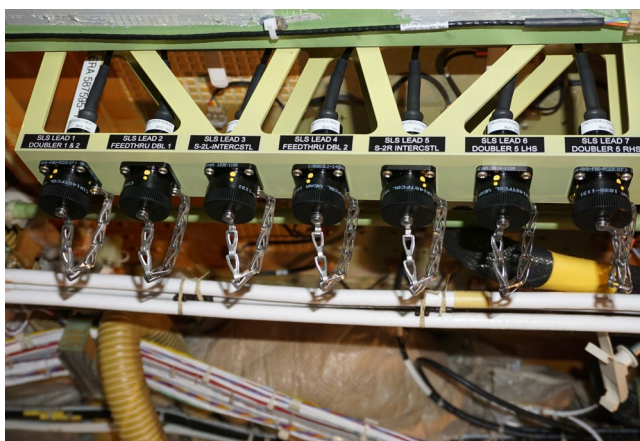


Figure 1: SLS Test Leads connected to CVM Sensors to detect crack status.



Figure 2: PM200 Test box indicating SLS Lead 6 (zone with approximately 30 fasteners) Passed.

Board appointments

On 14 October 2020, the Company appointed Sam Wright to the Board of Directors, where he was appointed an independent Non-Executive Director. Sam is well versed with operations having served as Company Secretary since May 2010.

Terry Walsh resigned as a Non-Executive Director on the same date and will continue to serve as Head of Corporate and Legal Affairs.

Structural Monitoring Systems PLC

Directors' Report

REVIEW OF OPERATIONS

Operating Results

The Group incurred an after-tax loss for the half-year ended 31 December 2020 of \$1.009 million (2019: \$1.753 million), a decrease of 42% on the prior period. The loss was attributable to the funding of commercialisation of CVM™ technology, pursuing the Delta programme and the costs associated with operating an ASX listed company in Australia. The loss was also attributable to share-based payment expenses incurred on the grant of Performance Rights to directors, employees and consultants in lieu of fees due.

The Group recorded a gross profit of \$4.367 million (2019: \$4.079 million), an increase of 7% on the prior period. The Group also recorded revenues of \$8.480 million (2019: \$8.763 million), a decrease of 3% on the prior period. Other key expenses during the period were costs of sales of \$4.113 million (2019: \$4.684 million) and employee expenses of \$2.745 million (2019: \$2.281 million). The movements were due in part, to an improvement in profit margins resulting from a change in mix of products and services sold. The movements were also negatively impacted by the Covid-19 pandemic and the Canadian dollar weakening against the Australian dollar.

During the half-year the Company granted Performance Rights to directors, employees and consultants as part of their employment contracts and, to preserve cash, in lieu of fees. The share-based payment expense recognised for the half-year was \$0.932 million (2019: \$1.112 million). Full details of the share-based payments are disclosed in Note 6: Share-based payments in the notes to the condensed consolidated financial statements. In order to preserve cash Directors and senior management voluntarily elected to take a reduction in remuneration of 25% and to receive the reduced remuneration in the form of equity rather than cash.

At the reporting date the Group had net assets of \$13.772 million (30 June 2020: \$13.401 million).

As at 31 December 2020, the Group held cash at bank, net of borrowings, of \$1.296 million (30 June 2020: \$2.065 million).

Future developments

In the short and medium-term the Group will focus on obtaining FAA approval and developing commercial sales of APB and Wi-Fi sensor applications.

Annual General Meeting

SMS held its Annual General Meeting of Shareholders as a virtual meeting on 21 January 2021. All resolutions that were put to shareholders were passed by a poll.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance date the Company held its Annual General Meeting ("AGM") as a virtual meeting and all resolutions put to shareholders were passed by a poll.

Following shareholder approval at the AGM the Company issued 450,000 CDIs to Director, Will Rouse. 300,000 CDIs were issued at an issue price of 32 cents and 150,000 CDIs were issued at an issue price of 29 cents.

Following shareholder approval at the AGM the Company issued 78,125 CDIs to Terry Walsh, legal counsel for the Company, at an issue price of 32 cents.

Structural Monitoring Systems PLC

Directors' Report

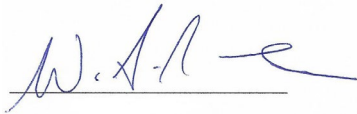
SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Following shareholder approval at the AGM the Company issued 894,286 performance rights to directors and officers at no cost pursuant to the Employee Incentive Plan. The performance rights are in lieu of accrued fees owing for the period 1 July to 31 December 2020 enabling the Company to preserve cash reserves.

Subsequent to the balance date 171,320 CDIs were issued to employees of AEM at an issue price of 36 cents under the Company's Employee Incentive Plan.

Other than the above, from the end of the reporting period to the date of this report no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

Signed in accordance with a resolution of the Directors.

A handwritten signature in blue ink, appearing to read 'W. A. Rouse', is written over a horizontal line.

William Rouse
Non-Executive Chairman
Perth, Western Australia
12 March 2021

Structural Monitoring Systems PLC

Condensed Consolidated Statement of Comprehensive Income

For the Half-Year Ended 31 December 2020

		6 months to 31-Dec-20 (reviewed)	6 months to 31-Dec-19 (reviewed)
	Note	\$000'	\$000'
Continuing operations			
Revenue	5	8,480	8,763
Cost of sales		(4,113)	(4,684)
Gross profit		4,367	4,079
Other income		57	12
Loss on debt for equity swap		(21)	-
Depreciation and amortisation		(453)	(542)
Administrative and corporate expenses		(705)	(1,209)
Employee expense		(2,745)	(2,281)
Occupancy expenses		(56)	(16)
Research and development expenses		(260)	(203)
Sales and marketing expenses		(277)	(422)
Share-based payments	6	(932)	(1,112)
Loss from continuing operations before income tax and finance costs		(1,025)	(1,694)
Finance income		1	2
Finance costs		(10)	(58)
Foreign currency (losses)/gains		(208)	29
Loss before income tax benefit/(expense)		(1,242)	(1,721)
Income tax benefit/(expense)		233	(32)
Net loss attributable to members of Structural Monitoring Systems Plc		(1,009)	(1,753)
Other comprehensive expense			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(206)	(2)
Other comprehensive expense		(206)	(2)
Total comprehensive loss for the period		(1,215)	(1,755)
Basic and diluted loss per share (cents per share)	7	(0.85)	(1.51)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Structural Monitoring Systems PLC

Condensed Consolidated Statement of Financial Position

As at 31 December 2020

		As at 31-Dec-20 (reviewed) \$000'	As at 30-Jun-20 (audited) \$000'
	Note		
ASSETS			
Current assets			
Cash and cash equivalents		1,296	2,545
Trade receivables		4,111	2,991
Inventory	8	6,058	7,122
Other current assets	9	581	363
Total current assets		12,046	13,021
Non-current assets			
Plant & equipment		332	342
Right-of-use assets		619	163
Intangible assets and goodwill	10	2,867	3,201
Deferred tax		50	-
Total Non-current assets		3,868	3,706
Total assets		15,914	16,727
LIABILITIES			
Current liabilities			
Trade and other payables	11	1,294	1,504
Borrowings		-	480
Deposit received		43	43
Lease liabilities	12	563	208
Tax payable		123	640
Total current liabilities		2,023	2,875
Non-current liabilities			
Lease liabilities	12	119	54
Deferred tax		-	397
Total non-current liabilities		119	451
Total liabilities		2,142	3,326
NET ASSETS		13,772	13,401
Equity			
Issued capital	13	31,948	31,946
Share premium account	13	36,279	35,967
Other reserves	14	(1,643)	1,516
Accumulated losses		(52,812)	(56,028)
TOTAL EQUITY ATTRIBUTABLE TO MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC		13,772	13,401

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Structural Monitoring Systems PLC

Condensed Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2020

	6 months to 31-Dec-20 (reviewed) \$000'	6 months to 31-Dec-19 (reviewed) \$000'
Cash flows from operating activities		
Receipts from customers	7,416	9,449
Payments to suppliers and employees	(7,728)	(10,590)
Income taxes paid	(347)	(106)
Interest income	1	2
Interest expense	(10)	(40)
Net cash flows used in operating activities	<u>(668)</u>	<u>(1,285)</u>
Cash flows from investing activities		
Payments for plant and equipment	<u>(99)</u>	<u>(73)</u>
Net cash flows used in investing activities	<u>(99)</u>	<u>(73)</u>
Cash flows from financing activities		
Repayment of lease liability	(217)	(187)
Proceeds from issue of shares	319	531
Costs of issue	(6)	(6)
Net cash flows from financing activities	<u>96</u>	<u>338</u>
Net decrease in cash and cash equivalents	(671)	(1,020)
Net of borrowing cash and cash equivalents at beginning of period	2,065	1,562
Effect of foreign exchange on balances	(98)	(2)
Cash and cash equivalents at end of period	<u><u>1,296</u></u>	<u><u>540</u></u>
Cash and cash equivalents	1,296	1,565
Borrowings	-	(1,025)
Net cash and cash equivalents at end of period	<u><u>1,296</u></u>	<u><u>540</u></u>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Structural Monitoring Systems PLC

Condensed Consolidated Statement of Changes in Equity attributable to members of Structural Monitoring Systems PLC

For the Half-Year Ended 31 December 2020

	Issued capital	Accumulated losses	Share premium reserve	Share-based payment reserve	Foreign exchange reserve	Total equity
Consolidated (Reviewed)	\$000'	\$000'	\$000'	\$000'	\$000'	\$000'
At 1 July 2019	31,932	(54,543)	35,106	1,586	(1,703)	12,378
Loss for the period	-	(1,753)	-	-	-	(1,753)
Other comprehensive income/ (expense)	-	-	-	-	(2)	(2)
Total comprehensive loss for the period	-	(1,753)	-	-	(2)	(1,755)
Transaction with owners in their capacity as owners:						
Share-based payment - shares	5	256	526	-	-	787
Share-based payment – performance rights	-	-	-	1,300	-	1,300
Share issue costs	-	-	(6)	-	-	(6)
At 31 December 2019	31,937	(56,040)	35,626	2,886	(1,705)	12,704
At 1 July 2020	31,946	(56,028)	35,967	3,492	(1,976)	13,401
Loss for the period	-	(1,009)	-	-	-	(1,009)
Other comprehensive income/ (expense)	-	-	-	-	(206)	(206)
Total comprehensive loss for the period	-	(1,009)	-	-	(206)	(1,215)
Transaction with owners in their capacity as owners:						
Share-based payments - shares	2	388	318	-	-	708
Shares issued on conversion of performance rights	-	94	-	(94)	-	-
Share-based payments – performance rights	-	-	-	884	-	884
Expiry of performance rights	-	3,743	-	(3,743)	-	-
Share issue costs	-	-	(6)	-	-	(6)
At 31 December 2020	31,948	(52,812)	36,279	539	(2,182)	13,772

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

1. GENERAL INFORMATION

Structural Monitoring Systems Plc is a public company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose shares are publicly traded on the Australian Securities Exchange. The address of the registered office is The Old Court, 8 Tufton Street, Ashford, Kent TN23 1QN, United Kingdom.

The interim financial report of the Company as at and for the six months ended 31 December 2020 comprises the condensed consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group"). The Group's principal activity was the design and manufacture of electronic products and the provision of manufacturing services to the aviation industry.

These condensed consolidated financial statements are presented in Australian Dollars (AUD) because the Group operates in international markets and the AUD\$ provides the most comparable currency for the peer companies.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union. The accounting policies are consistent with those set out and applied in the statutory accounts of the Group for the period ended 30 June 2020, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union

This condensed consolidated interim financial report is intended to provide users with an update on the latest annual financial statement of Structural Monitoring Systems PLC and its controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this interim financial report to be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the following half-year.

The interim financial information for the period from 1 July 2020 to 31 December 2020 is reviewed. In the opinion of the Directors the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The financial information incorporates comparative figures for the reviewed interim period from 1 July 2019 to 31 December 2019 and audited as at 30 June 2020.

The financial information contained in this interim report does not constitute statutory accounts as defined by section 434 of the Companies Act 2006.

The comparative financial information for the year ended 30 June 2020 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts of Structural Monitoring Systems Plc for the year ended 30 June 2020 have been reported on by the Company's previous auditor, RSM UK Audit LLP, and have been delivered to the Registrar of Companies. The report of the auditor was unqualified. The auditor's report did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

The interim financial report was authorised for issue in accordance with resolution of the directors on 12 March 2020.

The interim financial report has been prepared on an accruals basis under the historical cost convention.

The accounting policies have been consistently applied with those of the year ended 30 June 2020 and corresponding interim reporting period.

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

BASIS OF PREPARATION

Significant accounting estimates

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the consolidated financial statements the significant estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2020.

Going Concern

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

As disclosed in the condensed consolidated financial statements, the Group incurred a loss after tax of \$1.009 million and had net cash outflows from operating activities of \$0.668 million for the half-year ended 31 December 2020.

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM and the realisation of assets and discharge of liabilities in the normal course of business as well as the availability of an established operating loan facility of CAD\$3 million which was undrawn at the date of this report. The directors consider the going concern basis of accounting to be appropriate based on forecast cash flows and the availability of the loan facility.

3. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance date the Company held its Annual General Meeting ("AGM") as a virtual meeting and all resolutions put to shareholders were passed by a poll.

Following shareholder approval at the AGM the Company issued 450,000 CDIs to Director, Will Rouse. 300,000 CDIs were issued at an issue price of 32 cents and 150,000 CDIs were issued at an issue price of 29 cents.

Following shareholder approval at the AGM the Company issued 78,125 CDIs to Terry Walsh, legal counsel for the Company, at an issue price of 32 cents.

Following shareholder approval at the AGM the Company issued 894,286 performance rights to directors and officers at no cost pursuant to the Employee Incentive Plan. The performance rights are in lieu of accrued fees owing for the period 1 July to 31 December 2020 enabling the Company to preserve cash reserves.

Subsequent to the balance date 171,320 CDIs were issued to employees of AEM at an issue price of 36 cents under the Company's Employee Incentive Plan.

Other than the above, from the end of the reporting period to the date of this report no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

4. OPERATING SEGMENTS

The Company has identified its operating segments based on the internal management reports that are reviewed and used by the board of directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group operates predominantly in two industries, being structural health monitoring. (CVM™) and the design and manufacture of avionics and audio systems. A third segment refers to the intellectual property (IP) held in another subsidiary of the Parent. Company overheads are recorded in the Parent entity operating in the structural health monitoring segment (CVM™).

Revenue to third parties by origin is Canada (for avionics/audio) and Australia (for CVM™ segment).

The Parent Company is registered in the United Kingdom.

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

4. OPERATING SEGMENTS

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

The operations of the Group are not influenced by seasonal or cyclical factors.

	CVM™ IP \$000'	Avionics/ audio \$000'	CVM™ \$000'	Total \$000'
Half-year ended				
31-Dec-20				
Revenue				
Revenue from contracts with customers	-	7,471	-	7,471
Revenue from the rendering of services	-	1,009	-	1,009
Segment revenue	-	8,480	-	8,480
Sales revenue by customer location:				
North America	-	6,807	-	6,807
Europe	-	940	-	940
Middle East	-	564	-	564
Other	-	169	-	169
Total revenue	-	8,480	-	8,480
Results				
Other revenue	-	-	57	57
Profit/(loss) before tax	(186)	846	(1,902)	(1,242)
Income tax benefit	-	233	-	233
Profit/(loss) for the period	(186)	1,079	(1,902)	(1,009)
Assets and liabilities				
Segment assets	799	14,765	350	15,914
Segment liabilities	38	1,667	437	2,142
Included within segment results:				
Depreciation and amortisation	-	452	1	453
Financial income	1	-	-	1
Financial expense	-	(7)	(3)	(10)
Foreign currency gains/(losses)	-	(171)	(37)	(208)

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

4. OPERATING SEGMENTS

	CVM™ IP \$000'	Avionics/ audio \$000'	CVM™ \$000'	Total \$000'
Half-year ended				
31-Dec-19				
Revenue				
Revenue from contracts with customers	-	8,561	-	8,561
Revenue from the rendering of services	-	190	12	202
Segment revenue	-	8,751	12	8,763
Sales revenue by customer location:				
North America	-	7,274	12	7,286
Europe	-	1,020	-	1,020
Middle East	-	417	-	417
Other	-	40	-	40
Total revenue	-	8,751	12	8,763
Results				
Other revenue	-	1	11	12
Profit/(loss) before tax	(230)	1,038	(2,529)	(1,721)
Income tax expense	-	(29)	(3)	(32)
Profit/(loss) for the period	(230)	1,009	(2,532)	(1,753)
Assets and liabilities				
Segment assets	639	14,573	1,257	16,469
Segment liabilities	456	3,011	298	3,765
Included within segment results:				
Depreciation and amortisation	-	(504)	(38)	(542)
Financial income	2	-	-	2
Financial expense	(23)	(27)	(8)	(58)
Foreign currency gains/(losses)	(4)	34	-	30

Segment revenues represent revenue generated from external customers. There were inter-segment revenues of \$0.266 million (2019: \$0.235 million) in the current period.

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group derives its revenue from product sales and repair services, both recognised at a point in time in the following major geographical segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 (see note 4).

Revenue from contracts with customers by customer location:	6 months to 31 December 2020 \$000'	6 months to 31 December 2019 \$000'
North America	6,807	7,286
Europe	940	1,020
Middle East	564	417
Rest of world	169	40
Total revenue	8,480	8,763

There were no impairment losses on receivables in the statement of comprehensive income for the six months ended 31 December 2020.

Revenue from contracts with customers by customer location:	North America \$000'	Europe \$000'	Middle East \$000'	Rest of world \$000'
Segment revenue	7,073	940	564	169
Eliminations	(266)	-	-	-
Total revenue from contracts with customers	6,807	940	564	169

There were no impairment losses on receivables in the statement of comprehensive income for the six months ended 31 December 2019.

Revenue from contracts with customers by customer location:	North America \$000'	Europe \$000'	Middle East \$000'	Rest of world \$000''
Segment revenue	7,520	1,020	417	40
Eliminations	(235)	-	-	-
Total revenue from contracts with customers	7,285	1,020	417	40

31 December 2020

6. SHARE-BASED PAYMENT EXPENSE

	6 months to 31 December 2020 \$000'	6 months to 31 December 2019 \$000'
Performance Rights to Directors and Executive	507	740
Performance Rights to Consultants	36	116
CDIs to Directors and Executive	89	129
CDIs to Employees	190	76
CDIs to Consultants	110	51
	<u>932</u>	<u>1,112</u>

Performance Rights

- *Directors and Executive*

No Performance Rights (PRs) were issued to Directors and executives in the current period.

The expense recognised during the current period on PRs granted in prior periods to Directors was \$0.284 million (2019: \$0.274 million).

The expense recognised during the current period on PRs granted in prior periods to the CEO was \$0.223 million (2019: \$0.226 million).

- *Consultants*

No PRs were issued to consultants in the current period. The expense recognised during the current period on PRs granted in prior periods to consultants was \$0.360 million (2019: \$0.360 million).

- *In lieu of fees*

During the period the CEO and 3 consultants were issued with performance rights (PRs) in lieu of fees accrued for the period 1 April to 30 June 2020 and for the period 1 July to 31 December 2020. The fair value of those PRs was determined by the closing share price at the grant date. The difference between the fair value and the amount required to settle the obligations to the CEO and consultants at the grant date was recorded as loss on debt for equity swap. The expense recorded during the period was \$0.022 million (2019: \$nil).

Chess Depositary Interests (CDIs) - Employee Incentive Plan

On 27 July 2020 the Board approved the issue of CDIs to an executive, consultants and employees of the Company under the Employee Incentive Plan (EIP).

- *Directors and Executives*

350,000 CDIs were issued to an executive of the Company at a price of 32 cents.

The expense recognised in the current period was \$0.089 million. The total fair value was determined by the share price on the grant date.

- *Employees*

215,636 CDIs were issued to employees at a price of 32 cents.

The expense recognised in the current period was \$0.055 million. The total fair value was determined by the share price on the grant date.

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

6. SHARE-BASED PAYMENT EXPENSE (CONT'D)

- *Consultants*

431,000 CDIs were issued to consultants were issued at a price of 32 cents.

The expense recognised in the current period was \$0.110 million. The total fair value was determined by the share price on the grant date.

On 3 December 2019 the Board approved the issue of 147,000 CDIs to employees of wholly-owned subsidiary, AEM. The CDIs had a vesting period of 1 year. The CDIs were issued on 11 December 2020. The expense recognised in the current period was \$0.135 million. The total fair value was determined by the share price on grant date.

7. LOSS PER SHARE

Basic loss per share

The basic and diluted loss per share for the half-year ended 31 December 2020 is 0.85 cents per share (2019: 1.51 cents per share).

Earnings

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share has not been calculated as the Group is loss making.

	6 months to 31 December 2020	6 months to 31 December 2019
	\$000'	\$000'
Net loss attributable to equity holders from continuing operations	(1,009)	(1,753)
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for basic loss per share	119,680,597	115,799,098
Weighted average number of ordinary shares for diluted loss per share	119,680,597	115,799,098

8. INVENTORY

	As at 31 December 2020	As at 30 June 2020
	\$000'	\$000'
Raw materials	3,888	3,988
Work in progress	701	1,089
Finished goods	1,652	2,204
Provision for obsolescence	(183)	(159)
	<u>6,058</u>	<u>7,122</u>

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

9. OTHER CURRENT ASSETS

	As at 31 December 2020	As at 30 June 2020
	\$000'	\$000'
Prepayments	366	134
Bank guarantee	66	66
Other receivables	79	90
GST receivable	49	30
Deposits	21	43
	<u>581</u>	<u>363</u>

10. INTANGIBLE ASSETS AND GOODWILL

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

	Goodwill	Certifications	Licence agreement	Technology	Total
	\$000'	\$000'	\$000'	\$000'	\$000'
Balance at 1 July 2020	1,444	586	53	1,118	3,201
Amortisation expense	-	(116)	(10)	(74)	(200)
Effect of FX on balances	(64)	(22)	(2)	(46)	(134)
Balance at 31 December 2020	<u>1,380</u>	<u>448</u>	<u>41</u>	<u>998</u>	<u>2,867</u>

	Goodwill	Certifications	Licence agreement	Technology	Total
	\$000'	\$000'	\$000'	\$000'	\$000'
Balance at 1 July 2019	1,475	838	76	1,295	3,684
Amortisation expense	-	(244)	(22)	(156)	(422)
Effect of FX on balances	(31)	(8)	(1)	(21)	(61)
Balance at 30 June 2020	<u>1,444</u>	<u>586</u>	<u>53</u>	<u>1,118</u>	<u>3,201</u>

11. TRADE AND OTHER PAYABLES

	As at 31 December 2020	As at 30 June 2020
	\$000'	\$000'
Trade payables	515	602
Other payables	779	902
	<u>1,294</u>	<u>1,504</u>

12. LEASE LIABILITIES

During the period AEM, a wholly owned subsidiary of the Company, extended the lease on its premises for a further 12 months commencing 1 January 2021. AEM also has leases on a motor vehicle and IT equipment.

The total lease liabilities are \$0.682 million (2019: \$0.262 million).

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

13. ISSUED CAPITAL

	As at 31 December 2020	As at 30 June 2020
	\$000'	\$000'

Ordinary Shares

Issued and fully paid	31,948	31,946
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	<i>Shares on Issue (no.)</i>	<i>\$000'</i>
<i>Movement in ordinary shares in issue</i>		
At 30 June 2020	118,382,619	31,946
Issued under Employee incentive plan	996,636	2
Issued under Employee incentive plan	147,000	-
Issued on conversion of PRs granted previously	154,342	-
At 31 December 2020	119,680,597	31,948

	As at 31 December 2020	As at 30 June 2020
	\$000'	\$000'

Share Premium Account

Share Premium Account	36,279	35,967
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	<i>Shares on Issue (no.)</i>	<i>\$000'</i>
<i>Movement in ordinary shares in issue</i>		
At 30 June 2020	118,382,619	35,967
Issued under Employee incentive plan	996,636	318
Issued under Employee incentive plan	147,000	-
Issued on conversion of PRs granted previously	154,342	-
Issue costs		(6)
At 31 December 2020	119,680,597	36,279

Share premium account

The share premium account is used to record increments in the value of share issues when the issue price per share is greater than the par value. The par value of shares is GBP0.0005 (2019: GBP0.0005). Costs of the issues are written off against the account.

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

14. RESERVES

	As at 31 December 2020	As at 30 June 2020
Reserves	\$000'	\$000'
Share-based payment reserve	539	3,492
Foreign currency translation reserve	(2,182)	(1,976)
	<u>(1,643)</u>	<u>1,516</u>
	Performance rights on issue (PRs)	
	No.	\$000'
Share-based payment reserve		
Outstanding at 30 June 2020	<u>4,082,270</u>	<u>3,492</u>
Grant of PRs – for PRs issued in prior years	-	543
Grant of PRs – in lieu of fees owing	679,627	341
Conversion of PRs issued previously	(154,342)	(94)
Expiry of PRs issued previously	(2,625,000)	(3,743)
Outstanding at 31 December 2020	<u>1,982,555</u>	<u>539</u>

For further details of PRs granted during the period, refer to Note 6: Share-based payments expense.

Nature and purpose of reserves

Share-based payment reserve

The share-based payment reserve is used to record the value of share-based payments which represent unissued shares (i.e. grants of options/performance rights/performance shares) and grants of shares that have not yet been issued.

Foreign currency translation reserve

The foreign currency translation reserve (FCTR) is used to record exchange differences arising from the translation of the financial statements of AEM, a subsidiary of the Group domiciled in Canada, from Canadian dollars to Australian dollars. The movement is recorded under other comprehensive income/(expense) in the statement of comprehensive income.

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2020

15. FINANCIAL RISK MANAGEMENT

a) Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents and non-interest-bearing financial assets and financial liabilities of the Group is equal to their carrying value.

b) Liquidity risk

The following are the contractual maturities of financial liabilities:

31-Dec-20	Carrying amount	Contractual cash flows	1 year or less	1 year or more
	\$000'	\$000'	\$000'	\$000'
Trade and other payables (Note 11)	(1,294)	(1,294)	-	-
Lease liabilities (Note 12)	(682)	(682)	(563)	(119)
	(1,976)	(1,976)	(563)	(119)

30-Jun-20	Carrying amount	Contractual cash flows	1 year or less	1 year or more
	\$000'	\$000'	\$000'	\$000'
Trade and other payables (Note 11)	(1,504)	(1,504)	(1,504)	-
Borrowings	(480)	(480)	(480)	-
Lease liabilities (Note 12)	(262)	(262)	(208)	(54)
	(2,246)	(2,246)	(2,192)	(54)

c) Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases that are denominated primarily in US dollars and Canadian dollars whilst the Group's reporting currency is the Australian dollar. The Group also has exposure to the value of its investment in Canadian subsidiary Anodyne Electronics Manufacturing Corp which is denominated in Canadian dollars. The Group's ability to manage currency risk is restricted to the limits available on its hedging facility with its' bankers.

16. COMMITMENTS AND CONTINGENCIES

Contingent liability

During the prior period a claim for royalties for the years 2016-2020 was received by Structural Monitoring Systems Limited. The claim is being defended and will proceed to an arbitration hearing scheduled for August 2021. The amount of claim, including interest, as at 31 December 2020 is \$546,492 and has not been provided for.

Commitments

Following the adoption of IFRS 16 *Leases* the Company has no operating lease commitments. Lease liabilities are disclosed in Note 12 Lease liabilities.

The Group's subsidiary Anodyne Electronics Manufacturing Corp has entered into a 10 year lease agreement for a manufacturing facility currently under construction. The lease is expected to commence at the end of 2021. The Group's total commitment over the 10 year period is CAD\$7,204,800 (AUD\$7,338,358).

At the reporting date there are no other changes to commitments or contingent liabilities.

Structural Monitoring Systems PLC

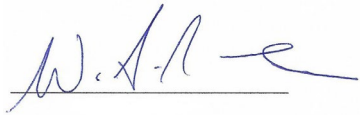
Directors' Declaration

The Directors of Structural Monitoring Systems Plc declare that in the opinion of the Directors:

- (a) the attached condensed consolidated financial statements and notes of the Group:
 - (i) give a true and fair view of the financial position as at 31 December 2020 and the performance for the half-year ended on that date; and
 - (ii) comply with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.
- (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.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read 'W. Rouse', is written over a horizontal line.

Will Rouse
Non-Executive Chairman
Perth, Western Australia
12 March 2021

Independent review report to the members of Structural Monitoring Systems Plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2020 which comprises the condensed consolidated Statement of Profit or Loss, the condensed consolidated Statement of Comprehensive Income, the condensed consolidated Statement of Changes in Equity, the condensed consolidated Statement of Financial Position, the condensed consolidated Statement of Cash flows and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Rules of the Australian Stock Exchange. As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRS Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review


We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, 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 International Standards on Auditing (UK and Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union and the Rules of the Australian Stock Exchange.

Use of this report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.



Nicholas Hollens
Elderton Audit (UK)
Statutory Auditor

12 March 2021

1 George Yard, London, EC3V9DF, United Kingdom