

STRUCTURAL MONITORING SYSTEMS PLC

COMPANY NUMBER 4834265



[STRUCTURAL MONITORING SYSTEMS]



ANNUAL REPORT 2021



Corporate Directory

Board of Directors

Will Rouse
Executive Chairman

R. Michael Reveley
Non Executive Director

Stephen Forman
Non Executive Director

Sam Wright
Non Executive Director

Officers

Toby Chandler
Chief Executive Officer

Sam Wright
Company Secretary

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Stock Exchange Listing

Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
Code: SMN

Structural Monitoring Systems Plc Website

www.smsystems.com.au

Structural Monitoring Systems Plc

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Auditors

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Important Notice

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 acquisition of shares (including substantial holdings and takeovers).



Review of operations

Structural Monitoring Systems Plc (“SMS”, the “Group” or the “Company”), recorded a solid result for 2021 in spite of unprecedented economic conditions brought about by the Covid pandemic. Its Canadian-based wholly-owned subsidiary Anodyne Electronics Manufacturing Corp (“AEM”), logged total sales for the 2021 financial year of \$15.340m (excluding intercompany sales), a decrease of 20% over the prior year.

Cash generation through the year was strong with a total year-end Group cash balance of \$2.381 million, net of borrowings (2020: \$2.065 million), an increase of 15% year on year.

For a second consecutive year the Group achieved a positive cashflow from operating activities. As a result, the Group has been able to devote resources to research and development, invest in new manufacturing equipment and will relocate to a new purpose-built manufacturing facility all of which will increase product lines, manufacturing efficiency, profit margins and enhance shareholder value in the years ahead. This has been achieved without resorting to capital markets and a dilution of shareholder value.

Subsequent to the reporting date SMS has executed a key acquisition transaction purchasing Eagle Audio, via its wholly-owned subsidiary Anodyne Electronics Manufacturing Corp for a purchase price of C\$4.118m. As a result of this milestone transaction Group annualised revenue and EBITDA are expected to increase by \$3.500m and \$2.200m respectively. The Eagle audio business is a simple ‘plug and play’ proposition. AEM’s existing platform scale, efficiency and production capabilities are expected to materially increase top line performance metrics with effectively zero increase in overheads.

The Group is adequately funded to continue its current operations during these uncertain times and will continue to demonstrate appropriate financial restraint. The Company’s Board and CEO have carefully reviewed the Group’s cashflow outlook, in light of the timeframe remaining to the CVM™ commercialisation, and with due regard to the constantly evolving Covid pandemic. For the first half of the financial year all SMS Board and Executive/senior staff remained on an equity-only remuneration structure and an agreed material reduction in levels of remuneration. From January 2021 the same staff have reverted to normal cash-based levels of remuneration, and these were paid subsequent to the reporting date.

During the year SMS appointed Sam Wright as a Non-Executive Director. Mr Wright brings significant experience and expertise in corporate governance, financial reporting and investor relations to the Group and will remain in the role of Company Secretary. Mr Wright replaces Terry Walsh who remains in the role of Head of Legal and Corporate Affairs.



Anodyne Electronics Manufacturing Corporation (“AEM”)

Wholly-owned SMS subsidiary, Anodyne Electronics Manufacturing Corp (“AEM”), recorded \$15.619m in revenue and normalised EBITDA** for the year to 30 June 2021 of \$3.363m (inc. intercompany sales on an arms-length basis). This was a particularly impressive result given the significant impact of the Covid pandemic that affected both sales and production at the platform level, while concurrent supply chain difficulties encountered at multiple times during the year compounded the overall business impact.

This full year result, exceeding budget, is a tribute to the excellent team the Company has assembled in Kelowna, operating in extremely challenging conditions. Through tight expense control, and the higher margins achieved from stronger sales of AEM developed products, the Group was able to offset the effects of softer sales in contract manufactured products.

Subsequent to the reporting date, as announced on 2 September 2021 AEM has acquired Eagle Audio (“Eagle”) a key acquisition for AEM and the Group which will result in increased top line sales of \$3.500m and EBITDA of \$2.200m. The acquisition, which will be entirely debt funded will provide a number of significant benefits across financial performance, product offerings, customer and supplier relationships and staff development.

Anodyne Electronics Manufacturing Corporation (“AEM”) (continued)

Looking ahead to the next financial year, SMS will continue to increase investment in R&D and sales team expansion which will result in a continuation of the transition to sales of higher margin, AEM developed products. The move to a new, vastly improved purpose-built facility in the December quarter, with the associated investment in the latest manufacturing equipment is expected to yield significant productivity improvements. Further, the new facility will provide the capacity to manufacture both the expected increased production volumes stemming directly from these R&D and sales investments, and also cater to the expected commercialisation and production ramp up of SMS’s CVM™ technology suite of products. Major equipment, inventory and staff transfer to the new facility will begin in October, and the facility is expected to be at, or close to, fully operational in late November/early December.

CVM™ Commercialisation Update and Outlook

2ku Wi-Fi & APB Programmes

The Federal Aviation Administration (“FAA”) has responded with questions to clarify some of the interpretive items in the data package for the Intelsat (GoGo) B737-800 2ku WiFi program and has established weekly conference calls with Delta Engineering (“DE”) to expedite the process.

SMS has now received routine addressable questions and comments from the FAA via DE in regard to the Supplemental Type Certificate (“STC”) application, Alternative Methods of Compliance (“AMOC”) application and probability of detection (“POD”) test report. The majority of the comments were directed towards the NDT Manual that details how to perform the CVM™ inspection, as well as the Test Report. Revisions of these documents clarifying the points in question have now been submitted to the FAA. In turn, the FAA has asked the DE ODA to submit the Statement of Compliance. At the current juncture, SMS is not aware of any additional required information necessary for the FAA to formally issue the AMOC and STC. At time of writing, the Company expects the full STC approval to be granted well before the end of calendar year 2021. Such an outcome will enable all expected commercialisation activities related to the Company’s CVM™ technology suite to begin in earnest, with an immediate global focus on the civil and military aviation sectors – encompassing both fixed-wing aircraft and rotorcraft.

Further, the Boeing Company (“Boeing”) continues to develop and proceed along the CVM™ certification process path for the B737 aft-pressure bulkhead (“APB”) application affecting a very large number of the world’s B737-NG fleet – this is fully independent to the process that has been underway for some time in relation to the Company’s STC approval steps under the authority of the FAA. Formative meetings with Boeing specialists and certification authorities, along with key FAA officials, have been held in the past month. Additionally, follow-up calls to discuss the test plan for supplementary POD data capture have been held, and the formal documentation is being drafted - following a similar process to the WiFi STC. Thus, progress to a final commercial outcome is now well advanced.

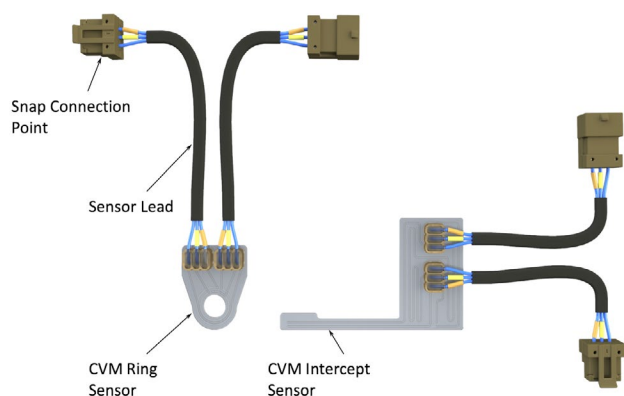


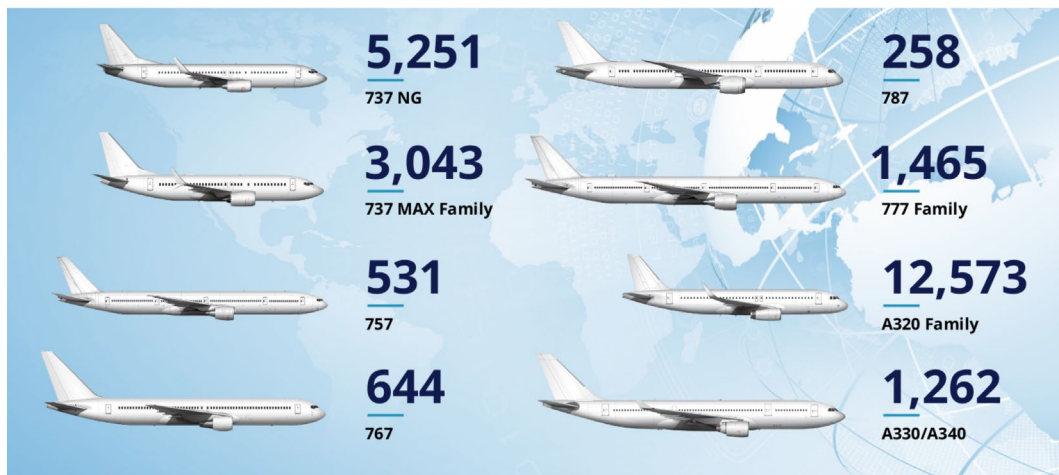
FIGURE 1 TOP-DOWN VIEW OF SENSORS



CVM™ Sensor connected to a vacuum source with an accurate flow meter

TARGET MARKET: IN-SERVICE AND ON-ORDER AIRCRAFT

SMSYSTEMS.COM.AU



CVM™: Post-FAA Approval Marketing and Outreach

The largest and most important marketing initiative to date has been to support the DE-led initiative to achieve the first FAA-approved application for CVM™. The formal approval to use CVM™ as an alternative means of inspection from the largest aerospace regulator in the world will provide the necessary “blue sky” for the rest of the industry to adopt CVM™ for use on their respective fleets. Upon formal approval, Rich Poutier, SMS Head of Global Business Development, will be in a position to:

- drive sales of CVM™ kits for those airlines that utilise all WiFi (not just GoGo) systems installed under STC and
- work with all major carriers to identify further use cases for CVM™ - more so given that the optimal path for regulatory approval process will be fully enacted and understood - by both SMS and the global civil aerospace industry.

More than 2,594 aircraft currently in service globally are fitted with the GoGo WiFi system, 1,600 of which are based in the USA. Rich Poutier, along with key members of the SMS Board and Management team, have met on multiple occasions with executives from a significant number of the global airlines that have the GoGo system installed, and continue to keep their respective management teams up to speed on the timelines expected for formal CVM™ approval.

In other activity, Delta Air Lines (“Delta”) continues to press Boeing and the FAA for additional use cases for CVM™ for the Delta fleet. The next sequential approval will very likely be for the APB structural inspection on Delta’s B737-NG fleet. To date, SMS and Delta have outfitted twenty (20) B737-NG individual aircraft with CVM™ kits and are now collecting data to support the current AMOC-approval process within Boeing. Further, Delta Tech Ops – Delta’s key technical and R&D arm – have now formally requested a quotation from SMS to outfit an additional seven (7) aircraft with APB CVM™ kits that will be included in Delta’s 2022 provisional budget.

In summary, as noted on multiple occasions, the upcoming FAA approval marks the pivotal commercial inflection point whereby SMS can directly identify the global total addressable market for the CVM™ sensor technology. The next phase of marketing will be to fully engage with the largest global airlines to drive sales in 2021/22, and beyond. The priority will be for applications under the purview of the FAA and/or Boeing. However, given the extensive and ground-breaking work that has been completed to date with the world’s major regulators and OEMs – including EASA and Airbus, amongst others - SMS will be pursuing all commercial routes to fully open up multiple global markets for CVM™.

Analysis Using Key Financial Performance Indicators and Milestones

As at 30 June 2021, the Group had approximately \$2.381m cash at bank, net of non-lease liability borrowings (2020: \$2.065m).

In this third full year of operations since the acquisition of AEM was completed in December 2017, the Group recorded a loss for the financial year of \$1.959m (2020: \$2.549m). The decrease in loss was incurred due in part to lower share-based payment expenses of \$1.116m (2020: \$1.952m). The Group also recorded revenue during the year of \$15.340m (2020: \$19.095m), a decrease of 20% year on year. Other key expenses during the year were consumables and raw materials used of \$8.258m (2020: \$10.204m) and employee costs of \$5.212m (2020: \$5.277m). Revenue has reduced as a result of supply chain constraints in the second half of the year brought about by chip shortages and the Covid pandemic. In accordance with IAS 38 *Intangible Assets* the Group has capitalised development expenses of \$0.901m (2020: \$nil) incurred in the internal development of products at the commercialisation stage of development.

The Group EBITDA* for the financial year was (\$0.478m) (2020: (\$0.991m)). Normalised EBITDA** for AEM for the year ended 30 June 2021 was \$3.363m, inclusive of intercompany sales on an arms-length basis (2020: \$4.178m).

Loss per share for the financial year was 1.64 cents per share (2020: Loss per share 2.19 cents).

Net tangible assets at the reporting date were 8.48 cents per ordinary security (2020: 8.62 cents).

At the reporting date the Group had net assets of \$14.013m (2020: \$13.401m). The Group had trade and other receivables of \$2.347m, inventory of \$7.088m and intangible assets of \$3.718m, including goodwill of \$1.454m. The key movements during the year were a decrease in borrowings of \$0.480m as cash balances net of borrowings increased by 15% during the year, ROU assets increased by \$0.210m due to investment in new plant and equipment under lease. ROU lease liabilities similarly increased by \$0.076m. Tax payable at year end decreased by \$0.514m as a result of decreased gross profit and increased lease payments recorded by AEM for the year. Deferred tax liabilities decreased by \$0.259m during the year.

The only movements in equity during the year were due to Directors and senior management electing to receive compensation in the form of Performance Rights (PRs) for the first half of the year in order to preserve cash, other contractual share-based compensation and subscriptions to CDIs made by staff through the Company's Employee Incentive Plan.

*EBITDA, which is inclusive of FX gains/losses, is calculated by adding back interest costs, income tax, depreciation and amortisation expenses and deducting interest revenue from loss after tax for the year of \$1.959m (2020: \$2.549m).

**Normalised EBITDA is calculated by adding back to EBITDA, SMS costs of \$0.728m borne by AEM.

Principal Risks and Uncertainties

The principal risks and how they are managed are set out on page 18 of the Director's Report.

S172 Statement

The Board has a duty under s172 of the Companies Act 2006 to promote the success of the Group of the benefit of its members as a whole. All decisions are made with this objective and the Board considers the long-term implications of its actions.

The Group has a continuous stakeholder engagement programme in which both Executive and Non-Executive Directors participate to ensure the Board is aware of stakeholder interests.

The Group believes its employees are its greatest asset and it seeks to establish policies that provide a working environment that is safe, enjoyable and rewarding.

Critical to the success of the Group is its long term relationship with its suppliers and customers, as well as its shareholders. The Board believes the decisions it has made have been appropriated both to support these stakeholders and to foster stronger, long-term relationships with them.

The Group is mindful of its role with its local communities and seeks to minimise the impact of its operations on the environment and to be a good neighbour.

Overall in considering and taking decisions the Board seeks to act in the best interests of the business and all its stakeholders, treating all members fairly.

The Strategic Report was signed on behalf of the Board.



William Rouse
Executive Chairman
30th September 2021

Your directors submit their report for the year ended 30 June 2021.

Directors and officers were in office for this entire period unless otherwise stated.

Directors and Officers

Will Rouse (Executive Chairman)

Mr Rouse is an experienced businessman and finance executive focused on the acquisition and optimised growth of specialised manufacturing-related businesses. In his last role, Will acquired Simcro Ltd ("Simcro") in 2007, a New Zealand-based export-manufacturer. Will sold his majority stake in Simcro in 2013 to The Riverside Company, a New York private equity group, retaining a 20% shareholding. Simcro then acquired two further operating businesses in NZ and Australia in 2015, with Will leading these acquisitions. Simcro was sold in 2018 to a global multinational. Mr Rouse is a Chartered Accountant. He joined the Board of SMS primarily to oversee the acquisition and management of AEM. His role expanded in 2019 to include chairing the Board and overseeing finance and audit.

R. Michael Reveley (Non-Executive Director)

Mr Reveley served as a managing partner, chief executive and co-CIO of SEAL Capital Ltd, a Los Angeles-based hedge fund specialising in global macro strategies designed to provide risk-adjusted absolute returns investing in an array of global markets, under all market conditions. Before forming SEAL Capital, he was a founding partner and deputy CIO at Seagate Global Advisors in Los Angeles, having earlier been director of the syndicate and derivatives group at SBC Warburg in London and New York, vice-president of global derivatives for Swiss Bank Corporation and vice-president of the global derivatives group at First Interstate Bank, where he co-managed a US\$20bn derivatives portfolio.

Stephen Forman (Non-Executive Director, appointed 1 November 2019)

Mr Forman has over 25 years of demonstrated high-level equity capital markets experience in Australia and North America, through roles in institutional equity sales and trading, investor relations and corporate advisory with major top-tier global investment groups, including UBS and JP Morgan, the latter where Mr Forman worked for 15 years in various senior positions.

Mr Forman's current role as Managing Director with New York-based investment advisory and consulting firm, Union Square Capital Advisors saw him successfully utilise his global network to assist companies with business development and corporate communication strategies, and to diversify their share register with Australian and North American investors. Mr Forman holds a B.Comm – Hons (Accounting & Finance) from UWA and is a CFA Charterholder.

Sam Wright (Non-Executive Director, appointed 14 October 2020 & Company Secretary)

Mr Wright has over 15 years experience in corporate governance, statutory financial reporting and investor relations with both retail and institutional investors.

He is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia and the Chartered Secretaries of Australia.

Mr Wright currently serves as a Non-Executive Director of PharmAust Limited (Oct 2008 - Present).

Terry Walsh (Non-Executive Director, Resigned 14 October 2020)

Mr. Walsh is a highly experienced corporate counsel having led legal teams at such firms as Hancock Prospecting Pty Ltd and Rio Tinto Limited (Perth). Mr. Walsh runs a private consultancy company, providing Board, commercial, business development and corporate advisory services. He provides a key oversight role for the Company's corporate legal affairs including contract negotiations, IP enforcement and maintenance, regulatory oversight and corporate compliance, and any future civil interactions.

Admission: Supreme Court of Western Australia in February 1995.

Mr Walsh currently serves as a Non-Executive Director of Nanollose Limited. During the last 3 years Mr Walsh has also served as a Non-Executive Director of Hazer Group Limited.

Toby Chandler (Chief Executive Officer)

Mr Chandler is Co-Founder and Chief Investment Officer of SEAL Capital Ltd, a global macro hedge fund investing in diverse global markets and financial instruments. Before forming SEAL Capital, Mr Chandler was a Partner and Portfolio Manager with private equity and macro hedge fund, Seagate Global Advisors, Inc.

In prior roles, Mr Chandler was a Managing Director with Morgan Stanley Inc, New York, where he ran the Bank's Specialist Hedge Fund Desk servicing key institutional counterparties in an array of financial products, and global markets. Mr Chandler has also held several other senior bank positions including Managing Director and Head of Global Fixed Income Distribution with HSBC Securities (USA) NA, New York; other previous Executive Director positions with Morgan Stanley Inc and Morgan Stanley International Plc, London, as Head of Emerging Markets and Global Fixed Income Distribution; and Vice President with Citigroup NA, New York and Citigroup Australia. He received his B.Comm in Finance from the University of Western Australia and his Masters in Applied Finance and Investment from the Securities Institute of Australia.

Principal Activities

During the financial year the principal continuing activities of the Group consisted of the design and manufacture of electronic products and the provision of manufacturing services to the aviation industry.

Shareholder Meetings

Structural Monitoring Systems Plc held its Annual General Meeting of Shareholders as a virtual meeting on 21st January 2021 at 12.00pm ADST.

All resolutions that were put were passed by a poll.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required under the rules of the Australian Securities Exchange to prepare group and company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

Statement of Directors' Responsibilities (continued)

In preparing the Group and Company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the www.smsystems.com.au website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Indemnity and Insurance of Officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Events subsequent to the reporting date

Subsequent to the reporting date the Company has completed the acquisition of Canadian business, Eagle Audio via its wholly-owned subsidiary Anodyne Electronics Corporation Inc ("AEM").

The consideration for the acquisition is C\$4.118m (with C\$360,000 of the purchase price to be held in escrow for 12 months). As a result of the acquisition the Company expects an increase in annualised gross revenues of \$3.500m per annum and an increase in normalised EBITDA of \$2.200m per annum. The acquisition was funded using cash and existing line of credit facilities with HSBC Canada.

A condition precedent to the facility with HSBC Canada is a deposit of US \$800,000 which is to be provided by Stephen Forman, a director of the Company for a term of 12 months. Interest of 6% per annum will be paid on the deposit.

The key customer segments of Eagle Audio are rotary and fixed wing aircraft (OEMs, law enforcement, EMS, CoastGuard, military, forestry and firefighting). The purchase price includes approx C\$0.800m in inventory plus IP/Supplemental type certifications ("STCs") and related process manufacturing/engineering documentation. Management is still in the process of identifying the fair value of the assets and liabilities acquired.

The Group has experienced supply chain constraints and had to implement social distancing measures and a split shift system during the first half of the year. The impact of the Coronavirus pandemic is ongoing and has had financial impact for the Group to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Canadian government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than the above no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Results and Dividend

The operating loss, after income tax, for the year was \$1.959m (2020: \$2.549m). No dividends were proposed or paid during the financial year.

Share Capital

The impact on share capital and share premium account of the share issues during the year, is disclosed in note 23 in the notes to the financial statements.

Financial Position

The Group reported a net loss after tax of \$1.959m (2020: loss \$2.549m) and an operating cash inflow of \$1.698m (2020: inflow \$0.342m) before tax for the year ended 30 June 2021 and reported working capital of \$10.088m including cash of \$2.381m as at that date. Subsequent to the reporting date the Group purchased Eagle Audio for C\$4.118m funded through cash and a partial drawdown of AEM's loan facility. A condition precedent of the loan facility is the deposit of US\$800K as security, which has been provided by a director of the Company on commercial terms.

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM, the contribution of the newly acquired business, Eagle Audio and the realisation of assets and discharge of liabilities in the normal course of business as well as the continued availability of an established operating loan facility of up to C\$5 million of which C\$4.3m had been drawn down as at the date of this report. The facility, which is provided by AEM's bankers, while repayable on demand, is long standing and is secured on receivables and inventory and is subject to loan covenants. The Directors expect compliance with the covenants to continue to be met.

The Directors have prepared forecasts in respect of future trading. Achievement of such forecasts would allow the entity to manage well within its current funding facilities for the foreseeable future. In developing these forecasts, the Directors have made assumptions and performed sensitivity analysis on variables such as revenues and employee costs based upon their view of the current and future economic conditions that will prevail over the forecast period of 12 months from the date of signing these financial statements. The Directors have not made any assumptions regarding generation of new revenue streams in the year ahead.

The Directors and senior management will formally consider all measures which would favourably reduce/defer operational expenses should actual cash flows be less than budgeted, as they have done in previous years. The director, who has provided a deposit of US\$800K as security for the AEM loan facility, has confirmed to the Board that he will not seek part or full repayment of this deposit for a period of at least 12 months from the date of this report, or until the Company elects to repay the deposit, whichever is earlier.

The Directors therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors Meetings

The numbers of director's meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Group during the financial year.

Director	Board meetings		Audit committee		Remuneration committee	
	A	B	A	B	A	B
W Rouse	3	3	1	1	2	2
R M Reveley	3	3	-	-	-	-
S Forman	3	3	1	1	2	2
S Wright ⁽¹⁾	2	2	1	1	2	2
T Walsh ⁽²⁾	1	1	-	-	-	-

⁽¹⁾ Appointed 14 October 2020. Also attended 1 board meeting as a guest.

⁽²⁾ Resigned 14 October 2020. Also attended 2 board meetings as a guest.

A – Number of meetings attended

B – Number of meetings held during the time which the director held office during the year

In addition to formal directors' meetings held during the year regular executive meetings were held on a monthly basis throughout the year.

Research and Development

The Group actively reviews technical developments in its markets with a view to taking advantage of the opportunities available to maintain and improve its competitive position. This action involves the design and development of structural health monitoring systems applicable to the aviation industry.

Remuneration Report

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of Structural Monitoring Systems Plc for the financial year ended 30 June 2021. The remuneration report details the remuneration arrangements for key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Remuneration Policy

The Remuneration Committee of the Board of Directors of Structural Monitoring Systems Plc is responsible for determining and reviewing compensation arrangements for the directors and executives. The Remuneration Committee (or the Board of directors) assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emoluments in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

Research and Development

The Group actively reviews technical developments in its markets with a view to taking advantage of the opportunities available to maintain and improve its competitive position. This action involves the design and development of structural health monitoring systems applicable to the aviation industry.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and senior executives' emoluments to the Company's financial and operational performance. Executive directors and employees have the opportunity to qualify for participation in the Company Employee Incentive Plan.

It is the Remuneration Committee's policy that employment agreements shall be entered into with the Managing Director and all other executives. The current employment agreement is consistent for all executives. The agreement has 3 months' notice period and provides for payment of an amount of three months' salary at the end of the three month notice period. Any options or performance rights held lapse when the service period is completed.

Remuneration of Directors and Executives

Details of the nature and amount of each major element of remuneration of each director of the Group and each of the Group executives who receive the highest remuneration are:

	Salary & Fees		Post Employment	Share-based payments		Total
30 June 2021	Cash	Performance rights in lieu of fees	Superannuation	Performance* rights	Shares**	
	\$	\$	\$	\$	\$	\$
Directors						
Will Rouse	100,000	121,826	-	138,258	66,834	426,918
R Michael Reveley	57,500	81,892	-	107,774	-	247,166
Stephen Forman	70,000	20,219	-	67,439	-	157,658
Sam Wright ⁽¹⁾	70,000	70,324	-	-	-	140,324
Terry Walsh ⁽²⁾	-	67,461	-	34,848	11,603	113,912
Executive						
Toby Chandler	68,750	178,262	-	223,269	89,250	559,531
Total	366,250	539,984	-	571,588	167,687	1,645,509

	Salary & Fees		Post Employment	Share-based payments		Total
30 June 2020	Cash	Performance rights in lieu of fees	Superannuation	Performance rights	Shares	
	\$	\$	\$	\$	\$	\$
Directors						
Will Rouse	-	142,588	-	22,250	-	164,838
R. Michael Reveley	-	217,053	-	-	-	217,053
Stephen Forman ⁽³⁾	20,369	57,823	-	-	-	78,192
Terry Walsh	26,256	102,486	2,494	-	-	131,236
Executive						
Toby Chandler	-	218,662	-	33,375	-	252,037
Total	46,625	738,612	2,494	55,625	-	843,356

⁽¹⁾ Appointed 14 October 2020

⁽²⁾ Resigned 14 October 2020. Mr Walsh receives a salary of \$115,000 per annum including superannuation as legal counsel.

⁽³⁾ Appointed 1 November 2019

*\$446,394 in Performance Rights (PRs) Share-based payment remuneration relates to PRs granted between December 2017 subject to share price hurdles which lapsed during the year ended 30 June 2021. A further \$34,848 in PRs remuneration lapsed subsequent to the reporting date.

No benefit was received by any director or executive for PRs which lapsed during the year.

**Two directors and an executive participated in the Company's Employee Incentive Plan to subscribe for shares during the year. The discount to market price paid for those shares is disclosed in the table above. Details of the transactions are included in note 22 Share-based payments.

Share-based compensation

At the 2020 AGM, 91% of the votes received supported the issue of the performance rights. The Company did not receive any feedback at the AGM regarding its remuneration practices.

The value of performance rights (PRs) granted, converted and lapsed for directors and executive as part of compensation during the year ended 30 June 2021 are set below:

	Value of PRs granted	Value of PRs converted	Value of PRs lapsed
Name	\$	\$	\$
Directors			
Will Rouse	121,826	293,815	790,875
R. Michael Reveley	81,892	-	1,032,725
Stephen Forman	46,919	118,364	-
Sam Wright	70,324	-	-
Terry Walsh	67,461	-	-
Executive			
Toby Chandler	178,262	-	1,919,050

The terms and conditions of performance rights are set out in Note 22: Share-based payments.

The number of PRs granted was determined in lieu of reduced fees for the period July to December 2020 to preserve cash.

Fees for the period January to June 2021 reverted to a cash basis and were paid subsequent to the reporting date.

Service Agreements

Remuneration and other terms of employment for Directors and executives are formalised in service agreements.

Details of these agreements are as follows:

Name:	Will Rouse
Title:	Executive Chairman
Agreement commenced:	1 January 2021
Term of agreement:	no fixed term
Details:	Base salary of AU\$200,000, to be reviewed annually by the Remuneration Committee.
Name:	R. Michael Reveley
Title:	Non-Executive Director
Agreement commenced:	1 January 2021
Term of agreement:	no fixed term
Details:	Base salary of AU\$115,000 to be reviewed annually by the Remuneration Committee.
Name:	Stephen Forman
Title:	Non-Executive Director
Agreement commenced:	1 January 2021
Term of agreement:	no fixed term
Details:	Base salary AU\$140,000 to be reviewed annually by the Remuneration Committee.
Name:	Sam Wright
Title:	Non-Executive Director & Company Secretary
Agreement commenced:	1 January 2021
Term of agreement:	no fixed term
Details:	Base salary AU\$140,000 to be reviewed annually by the Remuneration Committee.

Directors' Report

Structural Monitoring Systems Plc

Name: Toby Chandler
 Title: Chief Executive Officer
 Agreement commenced: 1 January 2021
 Term of agreement: no fixed term
 Details: Base salary of AU\$275,000 to be reviewed annually by the Remuneration Committee.
 Directors and executives have no entitlement to termination payments in the event of removal for misconduct.

Shareholdings of Directors

Shares held in Structural Monitoring Systems Plc:

	Balance at beg of year	Shares held on appointment/ resignation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of year
30 June 2021	No.	No.	No.	No.	No.	No.
Directors						
Will Rouse	270,588	-	-	435,428	450,000	1,156,016
R. Michael Reveley	2,654,351	-	-	-	(182,907)	2,471,444
Stephen Forman	1,900,000	-	-	117,308	(277,330)	1,739,978
Sam Wright ⁽¹⁾	-	1,620,000	-	-	-	1,620,000
Terry Walsh ⁽²⁾	64,500	(64,500)	-	-	-	-
Total	4,889,439	1,555,500	-	552,736	(10,237)	6,987,438

	Balance at beg of year	Shares held on appointment/ resignation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of year
30 June 2020	No.	No.	No.	No.	No.	No.
Directors						
Will Rouse	150,000	-	-	120,588	-	270,588
R. Michael Reveley	2,964,352	-	-	-	(310,001)	2,654,351
Terry Walsh	64,500	-	-	-	-	64,500
Stephen Forman ⁽³⁾	-	1,900,000	-	-	-	1,900,000
Total	3,178,852	1,900,000	-	120,588	(310,001)	4,889,439

⁽¹⁾ Appointed 14 October 2020

⁽²⁾ Resigned 14 October 2020

⁽³⁾ Appointed 1 November 2019

Performance Rights Holdings of Directors

Performance rights held over shares in Structural Monitoring Systems Plc:

	Balance at beg of year	Granted during the year	Exercised during the year	Held on appointment/ resignation date	Balance at end of year
30 June 2021	No.	No.	No.	No.	No.
Directors					
Will Rouse	795,588	264,840	(435,428)	(625,000)	-
R. Michael Reveley	814,904	178,025	-	(600,000)	392,929
Stephen Forman	267,308	103,954	(117,308)	-	253,954
Sam Wright ⁽¹⁾	-	155,813	-	-	155,813
Terry Walsh ⁽²⁾	251,471	-	-	(251,471)	-
Total	2,129,271	702,632	(552,736)	(1,476,471)	(802,696)

Performance Rights Holdings of Directors (continued)

	Balance at beg of year	Granted during the year	Exercised during the year	Held on appointment/ resignation date	Balance at end of the year
30 June 2020	No.	No.	No.	No.	No.
Directors					
Will Rouse	625,000	291,176	(120,588)	-	795,588
R. Michael Reveley	600,000	214,904	-	-	814,904
Terry Walsh	150,000	101,471	-	-	251,471
Stephen Forman ⁽³⁾	-	267,308	-	-	267,308
	1,375,000	874,859	(120,588)	-	2,129,271

⁽¹⁾ Appointed 14 October 2020

⁽²⁾ Resigned 14 October 2020

⁽³⁾ Appointed 1 November 2019

Additional information

The earnings of the Group for the 5 years to 30 June 2021 are summarised below:

	2021	2020	2019	2018	2017
	\$000'	\$000'	\$000'	\$000'	\$000'
Sales revenue	15,340	19,095	16,380	7,437	309
EBITDA	(478)	(991)	(2,827)	(3,651)	(1,380)
EBIT	(1,445)	(2,043)	(3,488)	(3,966)	(1,444)
Loss after income tax	(1,959)	(2,549)	(3,626)	(3,895)	(1,380)

The factors that are considered to affect total shareholders return ("TSR") are summarised below:

	2021	2020	2019	2018	2017
	\$000'	\$000'	\$000'	\$000'	\$000'
Share price at financial year end (\$)	0.36	0.43	0.65	0.88	1.45
Total dividends declared (\$)	-	-	-	-	-
Basic earnings per share (cents)	(1.64)	(2.19)	(3.51)	(3.55)	(1.35)

This concludes the Remuneration Report

Information Given to Auditors

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the Group's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Creditor Payment Policy

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2021. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2021, the Group's trade creditors represented 66 days' purchases (2020: 42 days).

Financial instruments and risks

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the CEO. The Board receives monthly reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

The Group is exposed through its operations to the following financial risks:

- credit risk;
- liquidity risk;
- foreign exchange risk

The Group is exposed to the usual credit risk associated with selling on credit and manages this through credit control procedures. AEM receivables are reviewed each month as part of the routine monthly operating review conducted by the Board. Further information is provided in note 24 in the notes to the financial statements.

As a result of operations in Canada, USA, Australia and United Kingdom the Group's assets and liabilities can be affected by movements in the C\$/A\$, US\$/A\$ and UK£/A\$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The Group is exposed to foreign currency risk following the acquisition of a Canadian-based subsidiary and the risk could increase in the future as international commercialisation of the Group's technologies increase. There is currently no form of currency hedging or risk strategy in place, but this policy will be reviewed and strategies implemented once the review is complete.

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group monitors forecast cash inflows and outflows on a monthly basis. The Group has an established operating loan facility for up to C\$5 million to assist with day to day operating requirements.

Business risks and uncertainties

The Group has a reliance on a key customer at the present time. The customer accounts for \$7.076 million of revenues totalling \$15.340 million. The relationship with the customer is secured by a licence agreement and the Group is diversifying its customer base.

The ongoing impact of the Coronavirus (COVID-19) pandemic is uncertain and the Group was impacted by supply chain constraints, demand uncertainty within the industry, social distancing measures and the move to a split shift system during the year ended 30 June 2021. It is not practicable to estimate the potential impact, positive or negative, after the reporting date. The pandemic may affect future travel, movement of labour and enforce supply chain constraints.

The Company continues to make progress towards the commercialisation of its comparative vacuum monitoring technology (CVM™). Further details can be found in the Strategic Report.

Future developments

The Directors have discussed the future developments for the AEM business and CVM™ technology within the Strategic Report on pages 4 to 5, in accordance with Section 414C of the Companies Act 2016.

By order of the Board



Will Rouse
Executive Chairman
30th September 2021

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

	Note	Consolidated		Parent	
		2021 \$000'	2020 \$000'	2021 \$000'	2020 \$000'
Continuing operations					
Revenue					
Sales		15,340	19,095	-	12
Cost of sales		(8,258)	(10,204)	-	-
Gross profit		7,082	8,891	-	12
Other income	4	664	73	337	73
Loss on debt for equity swap		(52)	(127)	(52)	(127)
Depreciation and amortisation	4	(967)	(1,052)	(2)	(39)
Employee expenses	5	(5,212)	(5,277)	(1,070)	(1,075)
Impairment charges		-	-	(387)	(446)
Occupancy expenses		(61)	(62)	(61)	(62)
Research and development expenses		(181)	(345)	(41)	-
Sales and marketing		(284)	(738)	(340)	(585)
Share-based payment expense	22	(1,116)	(1,952)	(1,116)	(1,952)
Administrative expenses		(1,114)	(1,604)	(382)	(472)
Operating loss before finance costs and tax		(1,241)	(2,193)	(3,114)	(4,673)
Finance income		1	3	-	-
Finance costs		(19)	(32)	(3)	(9)
Foreign exchange (losses)/gains		(204)	150	-	(1)
Income tax expense	6	(496)	(477)	-	-
Loss after finance costs and tax from continuing operations		(1,959)	(2,549)	(3,117)	(4,683)
Loss attributable to members of the parent		(1,959)	(2,549)	(3,117)	(4,683)
Other comprehensive income/(loss)					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation		100	(273)	-	-
Total comprehensive income/(loss) for the year		100	(273)	-	-
Loss for the year attributable to owners of Structural Monitoring Systems Plc		(1,859)	(2,822)	(3,117)	(4,683)
Earnings per share (cents per share)					
Basic for loss from continuing operations	7	(1.64)	(2.19)		
Diluted for loss from continuing operations	7	(1.64)	(2.19)		

The accompanying notes form an integral part of the financial statements.

Statement of Financial Position

As at 30 June 2021

Structural Monitoring Systems Plc
Company number: 4834265

	Note	Consolidated		Parent	
		2021 \$000'	2020 \$000'	2021 \$000'	2020 \$000'
Assets					
Non-current assets					
Loans to subsidiaries	14	-	-	9,944	11,397
Plant and equipment	11	444	342	3	5
Right-of-use assets	12	373	163	-	-
Intangible assets and goodwill	13	3,718	3,201	-	-
Total non-current assets		4,535	3,706	9,947	11,402
Current assets					
Trade receivables	8	2,347	2,991	86	3
Other receivables	9	511	363	22	116
Inventory	10	7,088	7,122	136	184
Cash and cash equivalents		2,381	2,545	-	-
Total current assets		12,327	13,021	244	303
Total assets		16,862	16,727	10,191	11,705
Liabilities					
Current liabilities					
Trade and other payables	15	1,845	1,504	434	245
Borrowings	16	-	480	-	-
Deposits	17	-	43	-	43
Lease liabilities	18	268	208	-	75
Provisions	19	126	640	-	-
Total current liabilities		2,239	2,875	434	363
Non-current liabilities					
Loans from subsidiaries	14	-	-	-	921
Lease liabilities	18	70	54	-	19
Deferred tax	6	539	397	-	-
Total non-current liabilities		609	451	-	940
Total liabilities		2,848	3,326	434	1,303
Net assets		14,014	13,401	9,757	10,402
Equity attributable to equity holders of the parent					
Issued capital	23	31,949	31,946	31,949	31,946
Share premium reserve	23	36,492	35,967	36,492	35,967
Accumulated losses		(53,194)	(56,028)	(57,056)	(58,732)
Other reserves	23	(1,233)	1,516	(1,628)	1,221
Total equity		14,014	13,401	9,757	10,402

The accompanying notes form an integral part of the financial statements.

Approved by the Board and authorised for issue on 30th September 2021



W. Rouse, Executive Chairman

Statement of Cash Flows

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

	Note	Consolidated		Parent	
		2021 \$000'	2020 \$000'	2021 \$000'	2020 \$000'
Cashflows from operating activities					
Receipts from customers		16,569	19,499	254	82
Payments to suppliers and employees		(14,853)	(19,041)	(880)	(1,507)
Interest received		1	3	-	-
Interest paid		(19)	(119)	(3)	(10)
Net cash provided by/(used in) operating activities before tax paid	20(a)	1,698	342	(629)	(1,435)
Income tax paid		(407)	(119)	-	-
Net cash provided by/(used in) operating activities		1,291	223	(629)	(1,435)
Cashflows from investing activities					
Payments for development expenses capitalised		(877)	-	-	-
Payments for plant and equipment		(287)	(78)	-	-
Net cash used in investing activities		(1,164)	(78)	-	-
Cashflows from financing activities					
Loan from subsidiaries		-	-	144	592
Proceeds from issue of shares		503	887	503	887
Proceeds pending issue of shares		-	43	-	43
Issue costs		(18)	(12)	(18)	(12)
Repayment of lease liabilities		(458)	(386)	-	(75)
Net cash provided by financing activities		27	532	629	1,435
Net increase in cash held		154	677	-	-
Cash and cash equivalents at beginning of year		2,065	1,562	-	-
Effect of foreign exchange on balances		162	(174)	-	-
Net cash and cash equivalents at end of year	20(b)	2,381	2,065	-	-
Cash and cash equivalents		2,381	2,545	-	-
Borrowings		-	(480)	-	-
Net cash and cash equivalents at end of year		2,381	2,065	-	-

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

	Issued capital	Accumulated losses	Share premium reserve	Share-based payments reserve	Foreign currency translation reserve	Total
Consolidated	\$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 year	-	(2,549)	-	-	-	(2,549)
Foreign currency translation	-	-	-	-	(273)	(273)
Total comprehensive loss for the year	-	(2,549)	-	-	(273)	(2,822)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	2,459	-	2,459
Issue of shares to directors and staff/consultants	10	515	873	-	-	1,398
Conversion of performance rights to shares	4	549	-	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	1,064	861	1,906	-	3,845
At 30 June 2020	31,946	(56,028)	35,967	3,492	(1,976)	13,401
At 1 July 2020	31,946	(56,028)	35,967	3,492	(1,976)	13,401
Loss for the year	-	(1,959)	-	-	-	(1,959)
Foreign currency translation	-	-	-	-	100	100
Total comprehensive loss for the year	-	(1,959)	-	-	100	(1,859)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	1,467	-	1,467
Issue of shares to directors and staff/consultants	2	-	543	478	-	1,023
Conversion of performance rights to shares	1	815	-	(816)	-	-
Expiry of performance rights	-	3,978	-	(3,978)	-	-
Share issue costs	-	-	(18)	-	-	(18)
Total transactions with owners	3	4,793	525	(2,849)	-	2,472
At 30 June 2021	31,949	(53,194)	36,492	643	(1,876)	14,014

Statement of Changes in Equity

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

	Issued capital	Accumulated losses	Share premium reserve	Share-based payments reserve	Foreign currency translation reserve	Total
Parent	\$	\$	\$	\$	\$	\$
At 1 July 2019	31,932	(55,113)	35,106	1,586	(2,271)	11,240
Loss for the year	-	(4,683)	-	-	-	(4,683)
Total comprehensive loss for the year	-	(4,683)	-	-	-	(4,683)
Transactions with owners:						
Issue of performance rights to directors and staff	-	-	-	2,459	-	2,459
Issue of shares to directors and staff	10	515	873	-	-	1,398
Conversion of performance rights to shares	4	549	-	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	1,064	861	1,906	-	3,845
At 30 June 2020	31,946	(58,732)	35,967	3,492	(2,271)	10,402
At 1 July 2020	31,946	(58,732)	35,967	3,492	(2,271)	10,402
Loss for the year	-	(3,117)	-	-	-	(3,117)
Total comprehensive loss for the year	-	(3,117)	-	-	-	(3,117)
Transactions with owners:						
Issue of performance rights to directors and staff	-	-	-	1,467	-	1,467
Issue of shares to directors and staff	2	-	543	478	-	1,023
Conversion of performance rights to shares	1	815	-	(816)	-	-
Expiry of performance rights	-	3,978	-	(3,978)	-	-
Share issue costs	-	-	(18)	-	-	(18)
Total transactions with owners	3	4,793	525	(2,849)	-	2,472
At 30 June 2021	31,949	(57,056)	36,492	643	(2,271)	9,757

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

1. Corporate information and authorisation of financial statements

The financial statements of Structural Monitoring Systems Plc for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the directors on 30 September 2021 and the statements of financial position were signed on the Board's behalf by Will Rouse.

Structural Monitoring Systems Plc is a public limited company incorporated and domiciled in the United Kingdom. The Company's ordinary shares, when held as a Chess Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK register cannot be traded on the Australian Securities Exchange.

2. Summary of significant accounting policies

(a) Basis of preparation

The consolidated financial statements and those of the parent entity are presented in Australian dollars which is the Company's functional currency and are rounded to the nearest Australian dollar. The average AUD:GBP rate for the year was 0.5546 (2020: 0.5328) and the reporting date AUD:GBP spot rate was 0.5429 (2020: 0.5586). The average AUD:CAD rate for the year was 0.9572 (2020: 0.9003) and the reporting date AUD:CAD spot rate was 0.9318 (2020: 0.9387). CAD is the functional currency of Anodyne Electronics Manufacturing Corp (AEM), a wholly-owned subsidiary of the Company.

(b) Financial Position

The Group reported a net loss after tax of \$1.959m (2020: loss \$2.549m) and an operating cash inflow of \$1.698m (2020: inflow \$0.342m) before tax for the year ended 30 June 2021 and reported working capital of \$10.088m including cash of \$2.381m as at that date. Subsequent to the reporting date the Group purchased Eagle Audio for C\$4.118m funded through cash and a partial drawdown of AEM's loan facility. A condition precedent of the loan facility is the deposit of US\$800K as security, which has been provided by a director of the Company on commercial terms.

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM, the contribution of the newly acquired business, Eagle Audio and the realisation of assets and discharge of liabilities in the normal course of business as well as the continued availability of an established operating loan facility of up to C\$5 million of which C\$4.3m had been drawn down as at the date of this report. The facility, which is provided by AEM's bankers, while repayable on demand, is long standing and is secured on receivables and inventory and is subject to loan covenants. The Directors expect compliance with the covenants to continue to be met.

The Directors have prepared forecasts in respect of future trading. Achievement of such forecasts would allow the entity to manage well within its current funding facilities for the foreseeable future. In developing these forecasts, the Directors have made assumptions and performed sensitivity analysis on variables such as revenues and employee costs based upon their view of the current and future economic conditions that will prevail over the forecast period of 12 months from the date of signing these financial statements. The Directors have not made any assumptions regarding generation of new revenue streams in the year ahead.

The Directors and senior management will formally consider all measures which would favourably reduce/defer operational expenses should actual cash flows be less than budgeted, as they have done in previous years. The director, who has provided a deposit of US\$800K as security for the AEM loan facility, has confirmed to the Board that he will not seek part or full repayment of this deposit for a period of at least 12 months from the date of this report, or until the Company elects to repay the deposit, whichever is earlier.

The Directors therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

(c) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as they apply to the financial statements of the Group for the year ended 30 June 2021 and are applied in accordance with the Companies Act 2006. The Group and the Company have not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements for the year ended 30 June 2021. See note 2(d) for further consideration.

2. Summary of significant accounting policies (continued)

(d) Accounting standards and Interpretations

New Accounting Standards and Interpretations not yet mandatory or early adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the year ended 30 June 2021. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

(e) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Structural Monitoring Systems Plc at the end of the reporting period. A controlled entity is any entity over which Structural Monitoring Systems Plc is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured at the end of each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of profit or loss and other comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

(f) Foreign currency translation

(i) Functional currency

Items included in the financial statements of each of the companies in the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of Structural Monitoring Systems Plc is Australian dollars and its presentation currency is Australian dollars. The functional currency of its overseas subsidiary, Structural Monitoring Systems Limited, is Australian dollars and the functional currency of its overseas subsidiary, Anodyne Electronics Manufacturing Corp is Canadian dollars.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2. Summary of significant accounting policies (continued)

(f) Foreign currency translation (continued)

(iii) Group entities

The results and financial position of all the Company entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of profit and loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity and in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to foreign currency translation reserve.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale where applicable.

g) Impairment of property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(h) Financial instruments

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

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Group with maturities of less than three months. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade, Group and other receivables

Trade, Group and other receivables are recorded initially at fair value and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts was recognised under an "incurred loss" model until 1 July 2018 and therefore it was dependent upon the existence of an impairment event. From 1 July 2018, the allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

2. Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade, Group and other payables

Trade, Group and other payables are initially measured at fair value net of direct transaction costs and subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Group are recorded at fair value on initial recognition net of transaction costs.

Derecognition of financial assets (including write-offs) and financial liabilities

A financial asset (or part thereof) is derecognised when the contractual rights to cash flows expire or are settled, or when the contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership are transferred to another party. When there is no reasonable expectation of recovering a financial asset it is derecognised ("written off"). The gain or loss on derecognition of financial assets measured at amortised cost is recognised in profit or loss. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability (or part thereof) that is derecognised and the consideration paid is recognised in profit or loss.

Impairment of financial assets

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both. The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

For trade receivables, material expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the ageing of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

For intercompany loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the subsidiary does not have sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, an expected credit loss is calculated. This is calculated based on the expected cash flows arising from the subsidiary, and weighted for probability likelihood of variations in cash flows.

Definition of default

The loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default when the principal or any interest is significantly more than the associated credit terms past due, based on an assessment of past payment practices and the likelihood of such overdue amounts being recovered.

2. Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Write-off policy

Receivables are written off by the Group when there is no reasonable expectation of recovery, such as when the counterparty is known to be going bankrupt, or into liquidation or administration. Receivables will also be written off when the amount is more than materially past due.

(i) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Share-based payment transactions

The Group provides benefits to employees (including directors) in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions'). The fair value of options is determined using the Black-Scholes pricing model or using the trinomial option pricing model.

There is currently one plan in place to provide these benefits, the Employee Incentive Plan (EIP), which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Structural Monitoring Systems Plc ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

(k) Revenue

Revenue recognition – Repair services

Repairs meet the definition of a distinct service whereby the associated revenue is to be recognised at a point in time, evidenced by the completion of the agreed upon service and delivery of the repaired parts/components to the customer. The point in time criteria are met as the following transfers of control exist: (a) The entity has the present right to payment for the asset; (b) the customer has the legal right to the asset; (c) the entity has transferred physical possession of the asset; (d) the customer has the significant risks and rewards of ownership of the asset; and (e) the customer has accepted the asset. Pricing is fixed and determinable pursuant to agreed upon pricing lists that establish stand-alone selling prices.

2. Summary of significant accounting policies (continued)

(k) Revenue (continued)

Revenue recognition – Product sales (stock or customised parts)

Product sales meet the definition of a distinct service whereby the associated revenue is to be recognised at a point in time, evidenced by the delivery of the products to the customer. The point in time criteria are met as the following transfers of control exist: (a) The entity has the present right to payment for the asset; (b) the customer has the legal right to the asset; (c) the entity has transferred physical possession of the asset; (d) the customer has the significant risks and rewards of ownership of the asset; (e) the customer has accepted the asset. Pricing is fixed and determinable pursuant to agreed upon pricing lists that establish stand-alone selling prices. There are no further performance obligations associated with these sales.

At times, multiple services or goods are sold to customers, however, contracts detail out separate prices for each different good or service purchased. As each service or good purchased has a standalone selling price in the negotiated contract there is no need to allocate a purchase price across multiple deliverables. In addition, each contract includes payment terms.

The Group recognises revenue on shipping for stock parts, customised product and customer product. When the Group provides a service (prototyping) it generally recognises revenue when the prototype is shipped or as the service is provided if there is no item to be shipped. The Group recognises revenue when it satisfies its performance obligation under the contract (when the Group ships the product which is also when the customer obtains control over the product or service).

(l) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Property, plant and equipment

Plant and equipment and leasehold improvements are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3 - 5 years
Leasehold improvements	5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

2. Summary of significant accounting policies (continued)

(n) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(o) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in the statement of profit and loss and other comprehensive income arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Certifications

Significant costs associated with certifications are amortised on a straight line basis over the period of their expected benefit, being the finite life of 5 years.

Licence agreement

Significant costs associated with a licence agreement are amortised on a straight line basis over the period of their expected benefit, being their finite life of 5 years.

Technology

Significant costs associated with technological intellectual property are amortised on a straight line basis over the period of their expected benefit, being their finite life of 10 years.

2. Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(q) Income tax

The charge for taxation for the year is the tax payable on the profit or loss for the year based on the applicable income tax rate for each jurisdiction and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss, and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

(r) Other taxes

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

Where the VAT/GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

receivables and payables are stated with the amount of VAT/GST included.

The net amount of VAT/GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the VAT/GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of VAT/GST recoverable from, or payable to, the taxation authority.

(s) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

(t) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed repayments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(u) Employee entitlements

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(v) Investments in subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost less, where appropriate, allowances for impairment.

(w) Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions concerning the future which impact the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The accounting estimates resulting from these judgements and assumptions seldom equal the actual results but are based on historical experiences and future expectations.

i) Share-based payment transaction:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Black-Scholes or binomial pricing models, using the assumptions detailed in note 22 Share-based payments in the notes to the financial statements.

ii) Impairment resulting from acquisition of Anodyne Electronics Manufacturing (AEM)

Impairment of goodwill and intangible assets

An annual review is carried out (as set out in note 13) as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on (i) discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate; and/or (ii) the comparison of carrying value to the net selling price of the cash generating unit; the determination of these factors require the exercise of judgement.

2. Summary of significant accounting policies (continued)

(w) Critical accounting estimates and judgements (continued)

iii) Impairment of inter-company receivables

The Company has intercompany loans to its subsidiary companies which are repayable on demand. As the subsidiaries did not have sufficient highly liquid resources to repay the loans at 30 June 2021, an expected credit loss provision is calculated under IFRS 9.

For Structural Monitoring Systems Canada Corporation, the calculation is based upon the expectation that AEM will continue to trade profitably in the future and that this will allow it to repay the loans over time. Further details on the impairment provision are set out in note 14 in the notes to the financial statements.

(iv) Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group entity based on known information. The consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

As at 30 June 2021, there are no other critical accounting estimates and judgements contained in the financial report.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

3. Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group 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 (CVM™ IP). 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) segment and Australia for (CVM™ segment). The Parent Company is registered in the UK.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2021 and 30 June 2020:

	CVM™ IP \$000'	Avionics/ audio \$000'	CVM™ \$000'	Total \$000'
Year ended 30 June 2021				
Revenue				
Sale of goods	-	14,337	-	14,337
Rendering of services	-	1,003	-	1,003
Total sales revenue	-	15,340	-	15,340
Other income	-	608	56	664
Interest revenue	1	-	-	1
FX gains/(losses)	(21)	(183)	-	(204)
Total segment revenue	(20)	15,765	56	15,801
Sales revenue by customer location				
Australasia	-	32	-	32
Africa	-	11	-	11
Europe	-	1,741	-	1,741
Asia/Middle East	-	722	-	722
Americas	-	12,834	-	12,834
Total sales revenue	-	15,340	-	15,340
Result				
EBITDA*	(388)	3,084	(3,174)	(478)
Depreciation and amortisation	-	(965)	(2)	(967)
Interest revenue	1	-	-	1
Finance costs	-	(16)	(3)	(19)
Profit/(loss) before income tax expense	(387)	2,103	(3,179)	(1,463)
Income tax expense	-	(496)	-	(496)
Profit/(loss) for the year	(387)	1,607	(3,179)	(1,959)
Assets and liabilities				
Segment assets - current	587	11,576	164	12,327
Segment assets - non current	-	4,533	2	4,535
	587	16,109	166	16,862

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

3. Segment information (continued)

	CVM™ IP \$000'	Avionics/audio \$000'	CVM™ \$000'	Total \$000'
Segment liabilities - current	79	1,726	434	2,239
Segment liabilities - non current	-	609	-	609
	79	2,335	434	2,848
Other segment information				
Capital expenditure	-	287	-	287
Depreciation	-	555	2	557
Amortisation	-	410	-	410
Year ended 30 June 2020				
Revenue				
Sale of goods	-	17,183	12	17,195
Rendering of services	-	1,900	-	1,900
Total sales revenue	-	19,083	12	19,095
Other income	73	-	-	73
Interest revenue	3	-	-	3
FX gains/losses	(13)	164	(1)	150
Total segment revenue	63	19,247	11	19,321
Sales revenue by customer location:				
Australasia	-	42	-	42
Africa	-	57	-	57
Europe	-	1,892	-	1,892
Americas	-	17,092	12	17,104
Total sales revenue	-	19,083	12	19,095
Result				
EBITDA*	(444)	4,178	(4,725)	(991)
Depreciation and amortisation	-	(1,013)	(39)	(1,052)
Interest revenue	3	-	-	3
Finance costs	(6)	(17)	(9)	(32)
Profit/(loss) before income tax expense	(447)	3,148	(4,773)	(2,072)
Income tax expense	-	(477)	-	(477)
Profit/(loss) for the year	(447)	2,671	(4,773)	(2,549)
Assets and liabilities				
Segment assets - current	821	10,909	1,291	13,021
Segment assets - non current	-	3,702	4	3,706
	821	14,611	1,295	16,727
Segment liabilities - current	78	2,434	363	2,875
Segment liabilities - non current	-	433	18	451
	78	2,866	382	3,326
Other segment information				
Capital expenditure	-	78	-	78
Depreciation	-	591	39	630
Amortisation	-	422	-	422

*EBITDA is profit before income tax expense, depreciation, amortisation, finance income and finance costs

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

3. Segment information (continued)

Major customers

During the year ended 30 June 2021 approximately \$7.076m (2020: \$9.390m) of the Group's sales revenue was derived from sales to a single US aircraft and parts company.

Revenue

In accordance with IFRS 15, the Group's revenue of \$15.340m (2020: \$19.095m) is made up of revenue from customers only and does not include any other revenue. Goods and services are transferred at a point in time, not over time, as detailed in the group's revenue recognition policy.

The Group does not have any contract assets or contract liabilities at 30 June 2021 (\$nil at 30 June 2020) as the Group does not fulfil any of its performance obligations in advance of invoicing to its customer or bill in advance for work performed. The Group however does have contractual balances in the form of trade receivables.

The Group also does not have any contractual costs capitalised at 30 June 2021 (\$nil at 30 June 2020) or have any outstanding performance obligations at 30 June 2021 (\$nil at 30 June 2020).

4. Income and expenses

	Consolidated		Parent	
	2021	2020	2021	2020
Income	\$000'	\$000'	\$000'	\$000'
Other income				
SRED Recovery	608	-	-	-
Mangement fees	-	-	281	-
Sub-lease income	56	73	56	73
	664	73	337	73
Finance income/(costs)				
Foreign exchange gains/(losses)	(204)	150	-	(1)
Bank interest	1	3	-	-
Interest and finance charges payable on borrowings	(7)	(2)	(3)	(2)
Interest and finance charges payable on lease liabilities	(12)	(30)	-	(7)
	(222)	121	(3)	(10)
Analysis of expenses by nature				
Employee remuneration (see note 5)	5,212	5,277	1,070	1,075
Intangible assets				
Amortisation of other intangible assets	410	422	-	-
Property, plant and equipment				
Depreciation of plant and equipment	255	272	2	2
Depreciation of ROU assets	302	358	-	37
	557	630	2	39
Total depreciation and amortisation	967	1,052	2	39
Operating leases	-	-	-	-
Consumables and raw materials used	7,438	9,169	-	-
Provision for obsolescence	63	45	-	-
Freight	183	249	-	-
Auditor's remuneration (see note 28)	155	232	78	105
Impairment charges	-	-	387	446
Share-based payments expense (see note 22)	1,116	1,952	1,116	1,952
Research and development	181	345	41	-
Other costs of sales, distribution and administration	1,304	3,040	705	1,013
Total income and expenses	10,442	21,361	2,327	4,630

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

4. Income and expenses (continued)

Impairment charges relate to loans to subsidiary undertakings which are written down to the net asset values of those entities excluding the loans at the reporting date.

5. Employees and directors

The average number of employees and directors employed by the Group during the year was:

	Consolidated		Parent	
	2021	2020	2021	2020
	No.	No.	No.	No.
Employee and directors' numbers				
Production	52	72	-	-
Research	22	19	-	-
Selling and distribution	18	14	2	4
Administration (including directors)	15	17	7	7
	107	122	9	11

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Employee remuneration				
Wages and salaries	4,602	4,624	1,070	1,075
Social security costs	355	404	-	-
Defined contribution costs	255	249	-	-
Total employee costs	5,212	5,277	1,070	1,075
Share-based payments	1,116	1,952	1,116	1,952
	6,328	7,229	2,186	3,027

Wages and salaries, include Directors' fees and other employee costs amounting to \$0.712m, were settled via the issue of Performance Rights.

Directors remuneration

Directors' fees, including superannuation, of \$0.298m (2020: \$0.569m) are included in employee expenses in the Statement of Profit and Loss and Other Comprehensive Income. Directors' share-based payments of \$0.788m (2020: \$0.757m) are included in share-based payments in the Statement of Profit or Loss and other comprehensive income. Refer to the Remuneration report in the Director's report for further details. This also includes details of the highest paid director.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

6. Income tax

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
The major components of income tax expense for the years ended 30 June 2021 and 30 June 2020 are:				
a) Income tax expense reported in Statement of Profit or Loss and Other Comprehensive Income				
Current tax expense	361	530	-	-
Deferred tax	135	(53)	-	-
Income tax expense reported in statement of comprehensive income	496	477	-	-
A reconciliation of income tax expense/(benefit) applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the effective income tax rate for the years ended 30 June 2021 and 30 June 2020 is as follows:				
Accounting loss before tax from continuing operations at the statutory income tax rate of 27.00% (2020: 27.50%)	(395)	(570)	(842)	(1,288)
Expenses not assessable for income tax purposes	509	644	477	3,951
Deferred tax not recognised	(610)	(551)	365	(2,663)
Income tax expense reported in Statement of Profit or Loss and Other Comprehensive Income	(496)	(477)	-	-
Deferred tax assets/(liabilities)				
Deferred tax assets and liabilities are attributable to the following:				
Costs deductible over 5 years	3	-	3	-
Accrued expenses	124	63	(113)	(25)
Tax losses	12,904	11,525	3,106	2,626
Tax assets/(liabilities)	13,031	11,588	3,222	2,601
Deferred tax not recognised	(13,031)	(11,588)	(3,222)	(2,601)

Potential deferred tax assets attributable to tax losses have not been brought to account at 30 June 2021 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- the Group continues to comply with conditions for deductibility imposed by law; and
- no changes in legislation adversely affect the Group in realising the benefit from the deductions for the loss.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

6. Income tax (continued)

	Business combination	Tax losses	Other timing difference	Total
2021	\$000'	\$000'	\$000'	\$000'
Recognised deferred tax liabilities				
Movement in deferred tax liabilities during the year:				
Brought forward	553	-	(156)	397
Charge to Statement of Profit or Loss and Other Comprehensive Income	(108)	6	237	135
Effect of fx on balances	-	-	7	7
Carried forward	445	6	88	539

	Business combination	Tax losses	Other timing difference	Total
2020	\$000'	\$000'	\$000'	\$000'
Recognised deferred tax liabilities				
Movement in deferred tax liabilities during the year:				
Brought forward	597	-	(147)	450
Charge/(credit) to Statement of Profit or Loss and Other Comprehensive Income	(44)	-	(9)	(53)
Carried forward	553	-	(156)	397

7. Earnings per share

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.

The number of performance rights at 30 June 2021 was 1,692,264 (2020: 4,082,270). Of those performance rights 1,392,264 were exercisable at 30 June 2021 but have been excluded from the diluted earnings per share calculation on the basis they are anti-dilutive.

The following reflects the income and share data used in the total operations basic loss per share computations:

	Consolidated	
	2021	2020
	\$000'	\$000'
Net loss attributable to equity holders from continuing operations	(1,959)	(2,549)
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for basic loss per share	119,578,443	116,500,559
Weighted average number of ordinary shares for diluted loss per share	119,578,443	116,500,559

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

8. Current assets – Trade receivables

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Trade receivables	2,347	2,991	86	3

9. Current assets – Prepayments and other receivables

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Prepayments	346	134	14	19
Bank guarantee *	66	66	-	-
Other receivable	21	90	-	89
GST receivable	47	30	-	-
Deposits	31	43	8	8
	511	363	22	116

*Bank guarantee held in security for a premises lease.

10. Current assets - Inventory

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Raw materials	4,373	3,988	-	-
Work in progress	906	1,089	-	-
Finished goods	1,828	2,204	136	184
Provision for obsolescence	(19)	(159)	-	-
	7,088	7,122	136	184

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

11. Non-current assets – Property, plant and equipment

	Leasehold improvements	Plant and equipment	Total
Consolidated	\$000'	\$000'	\$000'
Balance at 1 July 2020	73	269	342
Additions	-	287	287
Depreciation expense	(25)	(165)	(190)
Effect of FX movement on balances	-	5	5
Balance at 30 June 2021	48	396	444
Balance at 1 July 2019	92	448	540
Additions	12	75	87
Depreciation expense	(30)	(272)	(302)
Effect of FX movement on balances	(1)	18	17
Balance at 30 June 2020	73	269	342

12. Non-current assets – Right-of-use assets

	Consolidated		Parent	
	2021	2020	2021	2020
Consolidated	\$000'	\$000'	\$000'	\$000'
Land and buildings – right-of-use	903	454	-	-
Less: Accumulated depreciation	(655)	(303)	-	-
	248	151	-	-
IT equipment	151	-	-	-
Less: Accumulated depreciation	(33)	-	-	-
	118	-	-	-
Motor vehicle – right-of-use	19	17	-	-
Less: Accumulated depreciation	(12)	(5)	-	-
	7	12	-	-
	373	163	-	-

The Group leases land and buildings for its offices and a manufacturing facility under a 12 month agreement. The Group also leases IT equipment and a motor vehicle under 3 year agreements.

13. Non-current assets – Intangible assets and goodwill

	Goodwill	Certifications	License agreement	Technology	Total
	\$000'	\$000'	\$000'	\$000'	\$000'
Consolidated					
Balance at 1 July 2020	1,444	586	53	1,118	3,201
Development expenses capitalised	-	-	-	901	901
Amortisation expense	-	(230)	(21)	(146)	(397)
Effect of FX on balances	10	(2)	-	5	13
Balance at 30 June 2021	1,454	354	32	1,878	3,718

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

13. Non-current assets – Intangible assets and goodwill (continued)

	Goodwill	Certifications	Licence agreement	Technology	Total
	\$000'	\$000'	\$000'	\$000'	\$000'
Consolidated					
Balance at 30 June 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	1,444	586	53	1,118	3,201

Intangible assets

Certifications

AEM possesses distinct aircraft manufacturing and maintenance certifications, which are requisite to the sale and maintenance of their products in key markets.

Licence agreement

AEM has a licence agreement in place with one of their key customers to be the producer and seller of certain aircraft instruments. This has identifiable cash flows in the form of future sales to aircraft manufacturing and maintenance providers who require these instruments.

Technology

AEM has developed proprietary aircraft parts and manufacturing technology which are expected to continue to yield future sales. This intellectual property is separable and identifiable to the extent that it could be licensed or acquired. In addition, there are identifiable future benefits in the form of cash flows from the sale of the resulting products to AEM customers.

Amortisation

The amortisation period applied to the intangible assets are as follows:

Certifications – 5 years, remaining amortisation period is 3.5 years

Licence agreement – 5 years, remaining amortisation period is 3.5 years

Technology – 10 years, remaining amortisation period is 8.5 years

Impairment testing

Goodwill of \$1.454m acquired through business combinations has been allocated to the AEM cash generating unit (2020: \$1.444m).

The impairment test has been carried out using a discounted cash flow model covering a 5 year period. Cash flow projections are based on a budget for 2021/2022 approved by management and extrapolated for a further 4 years using a steady rate, together with a terminal value, approved by management. The principal assumptions made in determining the recoverable amount of goodwill as at 30 June 2020 include revenue growth of 2% per annum from 2023, EBITDA margin of 19% (2020: 14%) and a discount rate of 12.5% (2020: 14.1%).

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% less favourable in management's estimate the Group would need to reduce the carrying value of goodwill by \$nil (2020: \$nil).

If the EBITDA margin applied to the discounted cash flows had been 10% less favourable in management's estimate the effect on the Group would have been to reduce the carrying value of goodwill by \$nil (2020: \$nil).

The same reduction of \$nil (2020: \$nil) applies if revenues had been 10% less favourable.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of AEM's division's goodwill is based would not cause the cash generating unit's carrying amount to exceed its recoverable amount.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

14. Non-current assets/(liabilities) - Loans

	Loans to subsidiary undertakings	Total
Company	\$000'	\$000'
Year ended 30 June 2021		
Cost		
At 1 July 2020	23,014	23,014
Arising during the year	(1,066)	(1,066)
At 30 June 2021	21,948	21,948
Impairment		
At 1 July 2020	11,617	11,617
Impairment charge	387	387
	12,004	12,004
Net carrying amount at 30 June 2021	9,944	9,944
Year ended 30 June 2020		
Cost		
At 1 July 2019	22,990	22,990
Arising during the year	24	24
At 30 June 2020	23,014	23,014
Impairment		
At 1 July 2019	(11,171)	(11,171)
Impairment charge	(446)	(446)
	(11,617)	(11,617)
Net carrying amount at 30 June 2020	11,397	11,397

	Loans from subsidiary undertakings	Total
Company	\$000'	\$000'
Year ended 30 June 2021		
Cost		
At 1 July 2020	921	921
Received during the year	278	278
Assigned during the year	(1,199)	(1,199)
Net carrying amount at 30 June 2021	-	-
Year ended 30 June 2020		
Cost		
At 1 July 2019	305	305
Received during the year	616	616
Net carrying amount at 30 June 2020	921	921

Loans to/from subsidiaries are unsecured, have no fixed date for repayment and attract no interest charge. As the parent does not intend to call in the loans within the next 12 months the loans to subsidiaries are classified as non-current assets.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

14. Non-current assets/liabilities - Loans (continued)

See Note 24 for further details on impairment of intercompany receivables. The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

	Country of Incorporation	Type of equity	% Equity 2021	Interest 2020
Structural Monitoring Systems Limited Registered office: Suite 116, 1 Kyle Way Claremont WA 6010 Australia	Australia	Ordinary share	100	100
Structural Health Monitoring Systems Canada Corp (SMSCC) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	100
Anodyne Electronics Manufacturing Corp (AEM) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	100

15. Current liabilities – Trade and other payables

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Trade payables	897	602	8	18
Other payables	940	888	426	227
Taxes payable – HST, payroll tax	8	14	-	-
	1,845	1,504	434	245

Trade payables are non-interest bearing and are normally settled within 30 day terms. Other payables are non-interest bearing and have an average term of 66 days (2020: 42 days).

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

16. Current liabilities - Borrowings

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Credit card	-	39	-	-
Overdraft - secured	-	441	-	-
	-	480	-	-

AEM has a secured overdraft facility with a banking institution. The facility has a limit of C\$5m (2020:C\$3m) secured on trade receivables and inventory. The variable interest rate on the facility is 3.45%.

17. Current liabilities - Deposits

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Deposit held pending issue of shares	-	43	-	43

18. Lease liabilities

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Opening balance	262	618	94	168
Interest charged	12	35	-	7
Lease assigned during the year	(94)	-	(94)	-
Repayments during the year	(458)	(414)	-	(81)
Lease finance purchases during the year	610	-	-	-
Effect of foreign exchange on balances	6	23	-	-
Closing balance	338	262	-	94
Spilt between	268	208	-	75
Current	70	54	-	19
Non-current	338	262	-	94

19. Current liabilities – Provisions

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Income tax	-	640	-	-
Warranties	126	-	-	-
	126	640	-	-

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Structural Monitoring Systems Plc

20 (a). Reconciliation of the net loss before tax to the net cash flows from operations

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Loss before tax for the year	(1,463)	(2,072)	(3,117)	(4,683)
<i>Adjustments for:</i>				
Loss on debt for equity swap	52	127	52	127
Share based payments	1,116	1,952	1,116	1,952
Directors fees and other employee costs settled via performance rights	-	936	776	936
Depreciation and amortisation	967	1,052	2	39
Impairment of investments in subsidiaries	-	-	387	446
<i>Changes in assets and liabilities</i>				
Trade receivables	640	343	(88)	(3)
Prepayments and other receivables	(120)	(2)	5	(9)
Inventory	33	(962)	49	(184)
Trade and other payables	347	(1,032)	189	(56)
Provisions	126	-	-	-
Net cash provided by/(used in) operating activities	1,698	342	(629)	(1,435)

20 (b). Cash and cash equivalents

Cash at bank	2,428	2,544	-	-
Cash on hand	1	1	-	-
Credit card	(48)	(39)	-	-
Overdraft	-	(441)	-	-
	2,381	2,065	-	-

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

21. Employee benefits

(a) Employees incentive plan

On 11 December 2018 shareholders approved the Employee Incentive Plan (EIP) for the granting of non-transferable shares or performance rights (PRs) to directors, employees and relevant contractors with more than six months' service at the grant date. The shares vest immediately and the PRs vest upon the satisfaction of the relevant performance hurdles within 3 years of issue. Under the plan shares will be offered at a 12.5% discount to the lowest 5 day VWAP (calculated by taking the lowest 5 daily share price VWAPs for that quarter – and taking the average). 1,843,081 shares were issued to employees under the plan during the reporting period. Full details of issues during the year can be found in note 22 Share-based payments.

(b) Pensions and other post-employment benefit plans

AEM maintains a defined contribution pension plan for its' employees. AEM contributes 5% of salary to the Plan. Employees must be employed with the company for 12 months before they are entitled to the benefit. There are currently 88 employees participating in the plan. Contributions are paid monthly and recognised in the Statement of comprehensive income totalling \$0.355m (2020: \$0.404m). Contributions of \$nil (2020: \$0.044m) are outstanding at 30 June 2021.

22. Share-based payments

The share-based payment expense for the year is as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Issue of performance rights to directors and executives	545	1,275	545	1,275
Issue of shares to directors and executives under EIP	78	-	78	-
Issue of performance rights to other consultants	93	162	93	162
Issue of shares to eligible staff under EIP	400	515	400	515
	1,116	1,952	1,116	1,952

Performance Rights - Directors

On 21 January 2021 shareholders approved the issue of 60,000 Performance Rights (PRs) as remuneration to Stephen Forman, a Director of the Company, under the Company Employee Incentive Plan (EIP) as an annual award.

All Director PRs are subject to continued services with the Company and the issue is an annual award of 60,000 PRs to Steven Forman in accordance with his contract of employment.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

22. Share-based payments (continued)

Also on 21 January 2021 shareholders approved the issue of 856,933 PRs to directors in lieu of fees for the period to 31 December 2020. The fair value of the PRs granted to directors, executives and staff in lieu of fees was \$0.362m. The loss on swap of equity for debt of \$0.044m was recorded through the statement of profit or loss and other comprehensive income.

Performance Rights – Executive

An executive of the Company was granted 393,796 PRs in lieu of fees for the period to 31 March 2021. The fair value of \$0.178m was determined by the closing share price on grant date. 108,553 PRs with a fair value of \$0.062m were granted in lieu of fees previously accrued for the June 2020 quarter.

Performance Rights - Consultants

On 18 February 2021 The Board granted the issue of 30,000 PRs to a consultant under the EIP. The PRs have a fair value of \$0.013m determined by the closing share price on grant date.

In addition to directors and executives, three other consultants elected to receive PRs in lieu of fees during the year. A total of 288,526 PRs were issued and the fair value of \$0.132m was determined by the closing share price on grant date.

The number of performance rights that were outstanding, their weighted average exercise price and their movement during the year is as follows:

			Weighted ave ex price	
	2021 No.	2020 No.	2021 \$	2020 \$
At 1 July	4,082,270	3,075,000	2.07	2.75
Granted	1,788,325	1,722,447	-	-
Exercised	(1,253,331)	(715,177)	-	-
Expired	(2,925,000)	-	-	-
At 30 June	1,692,264	4,082,270	0.51	2.07
Exercisable at 30 June	1,392,264	1,007,270	-	-

The contractual term remaining on performance rights outstanding at 30 June 2021 is 24 months (2020: 12 months).

Notes to the Financial Statements

For the Year Ended 30 June 2021

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22. Share-based payments (continued)

The outstanding number of performance rights at 30 June 2021 and 30 June 2020 was as follows:

Exercise price	Grant date	Expiry date	2021 No.	2020 No.
\$0.001	18 February 2021	18 February 2024	259,412	-
\$0.001	21 January 2021	21 January 2024	584,446	-
\$0.001	11 December 2020	11 December 2023	232,031	-
\$0.001	12 December 2019	12 December 2022	316,375	-
\$2.00	12 December 2019	12 December 2022	50,000	-
\$2.75	12 December 2019	12 December 2022	50,000	-
\$3.50	12 December 2019	12 December 2022	50,000	-
\$0.001	7 April 2020	7 April 2023	-	143,055
\$0.001	18 November 2019	18 November 2022	-	78,296
\$0.001	12 December 2019	12 December 2022	-	754,271
\$0.001	3 October 2019	3 October 2022	-	31,648
\$2.00	15 August 2018	15 August 2021	25,000	25,000
\$2.50	15 August 2018	15 August 2021	25,000	25,000
\$3.00	15 August 2018	15 August 2021	25,000	25,000
\$3.25	15 August 2018	15 August 2021	25,000	25,000
\$3.50	15 August 2018	15 August 2021	25,000	25,000
\$3.75	15 August 2018	15 August 2021	25,000	25,000
\$2.00	15 April 2018	15 April 2021	-	50,000
\$2.50	15 April 2018	15 April 2021	-	50,000
\$3.00	15 April 2018	15 April 2021	-	50,000
\$3.25	15 April 2018	15 April 2021	-	50,000
\$3.50	15 April 2018	15 April 2021	-	50,000
\$3.75	15 April 2018	15 April 2021	-	50,000
\$2.00	7 December 2017	7 December 2020	-	600,000
\$2.20	7 December 2017	7 December 2020	-	450,000
\$2.50	7 December 2017	7 December 2020	-	250,000
\$2.75	7 December 2017	7 December 2020	-	400,000
\$3.00	7 December 2017	7 December 2020	-	150,000
\$3.15	7 December 2017	7 December 2020	-	150,000
\$3.25	7 December 2017	7 December 2020	-	100,000
\$3.50	7 December 2017	7 December 2020	-	175,000
\$3.75	7 December 2017	7 December 2020	-	225,000
\$4.00	7 December 2017	7 December 2020	-	125,000
			1,692,264	4,082,270

1,392,264 performance rights were issued during the year and are exercisable at 30 June at no cost.

Notes to the Financial Statements

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Structural Monitoring Systems Plc

22. Share-based payments (continued)

Terms of Performance Rights

1. The Performance Rights are non-transferable.
2. The Performance Rights do not confer any entitlement to attend or vote at meetings of the Company, to dividends, to participation in new issues of securities or entitlement to participate in any return of capital.
3. The Performance Rights vest upon the satisfaction of the relevant performance hurdle within 3 years of the issue of the Performance Rights and at the election of the holder.
4. The Performance Rights lapse if the performance hurdle is not satisfied or the election to convert is not given by the holder within 3 years of the issue of the Performance Rights except as otherwise provided for in the terms and conditions of the Plan.
5. Upon vesting, 1 ordinary share will be issued for every 1 Performance Right on the payment of the par value of the ordinary share, being £0.0005 pence per Share by the holder. The Shares will rank equally in all respects with the existing Shares on issue.
6. In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the vesting date, the number of Performance Rights, the share prices relevant to the performance hurdle and any exercise price may be reconstructed in accordance with the terms and conditions of the Plan.

Shares issued to directors, eligible staff and consultants under EIP

No. issued	Grant date	Issue price \$	Share price at grant date \$	Share-based payment charge \$000'
996,636	3/12/2019	0.32	0.575	254
171,320	4/8/2020	0.36	0.425	11
147,000	21/1/2021	nil	0.915	135
528,125	9/2/2021	0.32	0.460	78
1,843,081				478

Details of the EIP are included in Note 21 Employee Benefits.

On 21 January 2021 shareholders approved the issue of 528,125 shares to two directors of the company on the same terms and conditions as other eligible staff and consultants under the EIP.

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Structural Monitoring Systems Plc

23. Issued capital and reserves

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Ordinary Shares				
On issue 121,479,031, (2020: 118,382,619) par value £0.005				
Issued and fully paid	31,949	31,946	31,949	31,946
Total issued and fully paid	31,949	31,946	31,949	31,946

	Shares on issue	
	No.	\$000'
<i>Movement in ordinary shares in issue</i>		
At 30 June 2019	115,562,285	31,932
Issued on 26 August 2019 – CDIs issued *	291,347	1
Issued on 20 Dec 2019 – CDIs issued *	597,499	3
Issued on 21 April 2020 – CDIs issued *	1,216,311	6
Issued on 17 April 2020 – conversion of PRs	715,177	4
At 30 June 2020	118,382,619	31,946
Issued on 26 August 2019 – CDIs issued *	996,636	1
Issued on 20 Dec 2019 – conversion of PRs	154,342	-
Issued on 21 April 2020 – CDIs issued *	147,000	-
Issued on 17 April 2020 – conversion of PRs	156,683	-
Issued on 21 January 2021 – CDIs issued *	699,445	1
Issued on 28 January 2021 – conversion of PRs	17,676	-
Issued on 26 February 2021 – conversion of PRs	264,840	-
Issued on 20 May 2021 – conversion of PRs	170,588	-
Issued on 11 June 2021 – conversion of PRs	489,202	1
At 30 June 2021	121,479,031	31,949

*Chess depositary interests (CDIs) issued to employees at below market price.

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For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

23. Issued capital and reserves (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

	Consolidated		Parent	
	2021 \$000'	2020 \$000'	2021 \$000'	2020 \$000'
Share Premium Reserve				
Share Premium Reserve	36,492	35,967	36,492	35,967

	Shares on issue No.	\$000'
Movement in ordinary shares in issue		
At 1 July 2019	115,562,285	35,106
Issued on 26 August 2019 – CDIs issued *	291,347	175
Issued on 20 December 2019 – CDIs issued *	597,499	351
Issued on 21 April 2020 – CDIs issued *	1,216,311	347
Issued on 17 April 2020 – conversion of PRs	715,177	-
Share issue - costs	-	(12)
At 30 June 2020	118,382,619	35,967
Issued on 4 August 2020 – CDIs issued *	996,636	318
Issued on 4 August 2020 – conversion of PRs	154,342	-
Issued on 11 December 2020 – CDIs issued *	147,000	-
Issued on 8 January 2021 – conversion of PRs	156,683	-
Issued on 28 January 2021 – CDIs issued *	699,445	225
Issued on 28 January 2021 – conversion of PRs	17,676	-
Issued on 26 February 2021 – conversion of PRs	264,840	-
Issued on 20 May 2021 – conversion of PRs	170,588	-
Issued on 11 June 2021 – conversion of PRs	489,202	-
Share issue - costs	-	(18)
At 30 June 2021	121,479,031	36,492

*Chess depositary interests (CDIs) issued to employees at below market price.

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Structural Monitoring Systems Plc

23. Issued capital and reserves (continued)

	Consolidated		Parent	
	2021 \$000'	2020 \$000'	2021 \$000'	2020 \$000'
Other Reserves				
Foreign currency translation reserve	(1,876)	(1,976)	(2,271)	(2,271)
Share-based payment reserve	643	3,492	643	3,492

	Performance rights on issue	
	No.	\$000'
Share-based payment reserve		
Outstanding at 30 June 2019	3,075,000	1,586
Granted during prior years	-	1,065
Granted during the year	1,722,447	1,394
Converted during the year	(715,177)	(553)
Outstanding at 30 June 2020	4,082,270	3,492
PRs Granted during prior years	-	624
PRs Granted during the year in lieu of fees	1,788,325	842
PRs Converted during the year	(1,253,331)	(815)
PRs Expired during the year	(2,925,000)	(3,978)
CDIs Issued under Employee Incentive Plan	-	478
Outstanding at 30 June 2021	1,692,264	643

23. Issued capital and reserves (continued)

Nature and purpose of reserves

Share premium reserve

The share premium reserve 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 currently £0.005 (2020: £0.005). Costs of the issues are written off against the reserve.

Share-based payment reserve

The share-based payment reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration, or to other parties in lieu of cash compensation.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the company.

Reserves classified on the face of the consolidated statement of financial position as retained earnings represent accumulated earnings and are distributable. All the other reserves are non-distributable.

24. Financial risk management objective and policies

Financial risk management

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- Market risk, including foreign currency risk, price risk and interest rate risk
- Credit and cashflow risk
- Liquidity risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities.

The Board of Directors oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

The Company and the Group's principal financial instruments are cash, receivables, borrowings and payables. The financial assets are categorised as loans and receivables measured at amortised cost and the financial liabilities are categorised as other financial liabilities measured at amortised cost.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

24. Financial risk management objective and policies (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the group uses.

Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. It is the Group's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances.

Interest bearing liabilities include a bank overdraft facility secured on trade receivables. At the date of issue of this report the facility has been repaid.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis as 2020.

	Carrying value at year end \$000'	Profit or loss		Equity	
		100bp increase \$000'	100bp decrease \$000'	100bp increase \$000'	100bp decrease \$000'
Consolidated - 30 June 2021					
Cash and cash equivalents	2,381	24	(24)	24	(24)
		24	(24)	24	(24)
Consolidated – 30 June 2020					
Cash and cash equivalents	2,545	26	(26)	26	(26)
Borrowings	(480)	(5)	5	(5)	5
		21	(21)	21	(21)

Credit and cash flow risk

Credit and cash flow risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit and cash flow risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit and cash flow risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. This risk is minimised by reviewing term deposit accounts from time to time with approved banks of a sufficient Fitch Ratings credit rating of at least A-, Moody's credit rating of at least A2, and Standard & Poor's credit rating of at least A-. The Group does not place funds on terms longer than 30 days and has the facility to place the deposit funds with more than one bank. The Group does not hold collateral as security for any of its' receivables.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

24. Financial risk management objective and policies (continued)

The Company has exposure to credit and cash flow risk arising from the making of loans to subsidiaries. The loans carry no interest rate or date for repayment. Loans are impaired to the carrying value of the subsidiaries' assets.

The Group and Company undertake the following procedures to determine whether there has been a significant increase in the credit risk of its other receivables, including group balances, since their initial recognition. Where these procedures identify a significant increase in credit risk, the loss allowance is measured based on the risk of a default occurring over the expected life of the instrument rather than considering only the default events expected within 12 months of the year-end.

The Group and Company have not determined that credit risk has increased during the year in respect of the Group's trade receivables.

Exposure to credit and cash flow risk

The carrying amount of the Group's financial assets and liabilities represents the maximum credit exposure. The Group's maximum exposure to credit and cash flow risk at the reporting date was:

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Cash and cash equivalents	2,381	2,545	-	-
Trade receivables	2,347	2,991	86	3
Loans to subsidiaries	-	-	9,944	11,397
	4,728	5,536	10,030	11,400

The Group's maximum exposure to credit and cash flow risk for trade receivables and cash and cash equivalents at the reporting date by geographic region was:

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Europe	1	502	-	-
Americas	4,226	4,259	10,030	11,397
Australasia	501	720	-	3
Other	-	55	-	-
	4,728	5,536	10,030	11,400

Trade receivables at 30 June 2021 represent 56 debtors days (2020: 57 debtor days).

There were no trade receivables impairment losses at 30 June 2021 (2020: \$nil).

No expected credit loss provision in respect of trade receivables has been recognised on the basis this is immaterial. The expected credit loss rate applied has been calculated based on historical recovery rates of low bad debt write offs. This is also supported by strong post year end collection of cash.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

24. Financial risk management objective and policies (continued)

Impairment of company receivables from subsidiaries

The Company's group receivables represent trading balances and loan amounts advanced to other group companies with no fixed repayment dates. Under IFRS 9 the fair value of this intercompany receivable is repayable on demand to the Company.

The Company was due the following amounts as at 30 June 2021 before the recognition of any impairment loss provisions:

	SMS Ltd	SMSCC	Total
	\$000'	\$000'	\$000'
Gross	12,512	9,436	21,948
Impairment	(12,004)	-	(12,004)
Carrying value at 30 June 2021	508	9,436	9,944

In respect of the balance due from Structural Monitoring Systems Limited (SMS Ltd), the Company did not have sufficient liquid resources at 30 June 2021 to repay the loan in full. An impairment loss provision has been recognised to the extent the carrying value at 30 June 2021 is covered by the recovery of net assets in the balance sheet of SMS Ltd. This has been measured based on lifetime expected credit losses on the basis that credit risk has increased since initial recognition.

In respect of the balance due from Structural Monitoring Systems Canada Corporation (SMSCC), the Company did not have sufficient liquid resources at 30 June 2021 to repay the loan in full. However, on the basis that there has been no significant increase in credit risk and the balance is expected to be recovered by the subsidiary's trading, no impairment loss provision has been recognised on the basis that any impairment loss provision would be immaterial (2020: \$nil). This has been measured based on 12 month expected credit losses.

Credit risk

The measurement of impairment losses depends on whether the financial asset is 'performing', 'underperforming' or 'non-performing' based on the company's assessment of increases in the credit risk of the financial asset since its initial recognition and any events that have occurred before the year-end which have a detrimental impact on cash flows.

The financial asset moves from 'performing' to 'underperforming' when the increase in credit risk since initial recognition becomes significant.

In assessing whether credit risk has increased significantly, the company compares the risk of default at the year-end with the risk of a default when the investment was originally recognised using reasonable and supportable past and forward-looking information that is available without undue cost.

The risk of a default occurring takes into consideration default events that are possible within 12 months of the year-end ("the 12-month expected credit losses") for 'performing' financial assets, and all possible default events over the expected life of those receivables ("the lifetime expected credit losses") for 'underperforming' financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount	Contractual cash flows	1 year or less	More than 1 year
30 June 2021	\$000'	\$000'	\$000'	\$000'
Trade and other payables	(1,845)	(1,845)	(1,845)	-
Lease liabilities	(338)	(338)	(268)	(70)
	(2,183)	(2,183)	(2,113)	(70)

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

24. Financial risk management objective and policies (continued)

Consolidated 30 June 2020	Carrying amount \$000'	Contractual cash flows \$000'	1 year or less \$000'	More than 1 year \$000'
Trade and other payables	(1,490)	(1,490)	(1,490)	-
Borrowings	(480)	(480)	(480)	-
lease liabilities	(305)	(305)	(249)	(56)
	(2,275)	(2,275)	(2,219)	(56)

The carrying amount of financial assets and financial liabilities at amortised cost recorded by category is as follows:

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2021 \$000'	2020 \$000'	2021 \$000'	2020 \$000'
Financial assets measured at amortised cost				
Cash and cash equivalents	2,381	2,545	-	-
Trade receivables	2,347	2,991	86	3
Loans to subsidiary undertakings	-	-	9,963	11,397
	4,728	5,536	10,049	11,400
Financial liabilities measured at amortised costs				
Borrowings	-	480	-	-
Trade and other payables	1,845	1,504	434	245
Lease liabilities	338	262	-	94
Loans from subsidiary undertakings	-	-	-	921
	2,183	2,246	434	1,260

Foreign currency risk

The Group undertakes sales and purchases that are denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations in the US dollar, Canadian dollar, the Euro and the British pound. The fair value of the Group and Parent Company financial assets and liabilities are not materially different to their book values.

Exposure to currency risk

The Group's exposure to foreign currency risk at reporting date was as follows, based on notional amounts:

30 June 2021					
In AUD	AUD000'	CAD000'	USD000'	GBP000'	Total 000'
Cash	189	643	1,549	-	2,381
Trade receivables	5	189	2,153	-	2,347
Trade and other payables	(511)	(982)	(352)	-	(1,845)
	(317)	(150)	3,350	-	2,883

30 June 2020					
In AUD	AUD000'	CAD000'	USD000'	GBP000'	Total 000'
Cash	255	243	2,047	-	2,545
Trade receivables	3	236	2,752	-	2,991
Trade and other payables	(199)	(544)	(685)	(62)	(1,490)
	59	(65)	4,114	(62)	4,046

24. Financial risk management objective and policies (continued)

The Group had net assets denominated in foreign currencies of \$3.207m as at 30 June 2021 (2020: net assets of \$3.987m). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% (2020: weakened by 10%/strengthened by 5%) against these foreign currencies with all other variables held constant, the Group's loss before tax for the year would have been \$0.321m higher/\$0.321m lower (2020: \$0.170m higher/\$0.085m lower).

The Board regularly monitors the Group's exposure to foreign exchange fluctuations.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2021	2020	2021	2020
AUD:CAD	0.957	0.900	0.932	0.939
AUD:USD	0.747	0.671	0.752	0.686

Capital risk management

The Company and the Group's objectives when managing capital are to safeguard the Company and the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management of the Company and the Group's capital is performed by the Board.

Given the level of operations of the Group, the Board has a secured overdraft facility available with a credit limit of C\$5 million. It has not made use of long term debt financing, but has instead chosen to raise additional capital by issuing shares. The Board regularly monitors, liquidity, exchange rates, cash flow and financial assets and liabilities balances by means of financial reports and cashflow forecasting.

None of the Group's entities are subject to externally imposed capital requirements.

25. Commitments and contingencies

A claim for royalties amounting to \$561,865 including interest (2020: claim received \$435,064 inc GST/interest) has not been provided for based on the current status of the case where a verdict is expected later this year.

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

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

26. Related party disclosure

The consolidated financial statements include the financial statements of Structural Monitoring Systems Plc and the subsidiaries listed in the following table.

	Country of incorporation	% Equity interest	
		2021	2020
Structural Monitoring Systems Ltd	Australia	100	100
Structural Monitoring Systems Canada Corp (SMSCC)	Canada	100	100
Anodyne Electronics Manufacturing Corp (AEM)	Canada	100	100

Structural Monitoring Systems Plc is the ultimate parent entity and is incorporated in the United Kingdom. The Company carries on the business of developing the Group's structural health monitoring technology.

Structural Monitoring Systems Limited is a subsidiary of the Group and is incorporated in Australia. It is the owner of the intellectual property pertaining to the structural health monitoring technology.

SMSCC was incorporated on 24 October 2017.

Anodyne Electronics Manufacturing Corporation (AEM), was acquired by SMSCC on 8 December 2017 for a consideration of \$10,998,750.

Remuneration paid to the directors and executives, who are considered key management personnel, for the year is disclosed in the remuneration report in the Directors' Report.

The share-based payments charge for directors and executives for the year was \$0.713m (2020: \$1.275m).

The following are the amounts due to key management personnel at reporting date:

	2021 \$000'	2020 \$000'
Due to executive – Toby Chandler	69	69
Due to director – Will Rouse	100	-
Due to director – Michael Reveley	58	-
Due to director – Stephen Forman	40	-
Due to director – Sam Wright *	40	20
Due to director – Terry Walsh **	29	-

* Appointed 14 October 2020 (2020: comprises Company Secretarial Fees due)

** Resigned 14 October 2020 (2021: comprises Legal Counsel fees due)

Notes to the Financial Statements

For the Year Ended 30 June 2021

Structural Monitoring Systems Plc

27. Events after the balance sheet date

Subsequent to the reporting date the Company has completed the acquisition of Canadian business, Eagle Audio via its wholly-owned subsidiary Anodyne Electronics Corporation Inc ("AEM").

The consideration for the acquisition is C\$4.118m (with C\$360,000 of the purchase price to be held in escrow for 12 months). As a result of the acquisition the Company expects an increase in annualised gross revenues of \$3.500m per annum and an increase in EBITDA of \$2.200m per annum. The acquisition was funded using cash and existing line of credit facilities with HSBC Canada.

A condition precedent to the facility with HSBC Canada is a deposit of US \$800,000 which is to be provided by Stephen Forman, a director of the Company for a term of 12 months. Interest of 6% per annum will be paid on the deposit.

The key customer segments of Eagle Audio are rotary and fixed wing aircraft (OEMs, law enforcement, EMS, CoastGuard, military, forestry and firefighting). The purchase price includes approx. C\$0.800m in inventory plus IP/Supplemental type certifications ("STCs") and related process manufacturing/engineering documentation. Management is still in the process of identifying the fair value of the assets and liabilities acquired.

The impact of the Coronavirus pandemic is ongoing and has had financial impact for the Group to 30 June 2021. The Group has experienced supply chain constraints and had to implement social distancing measures and a split shift system earlier in the year, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is ongoing and is dependent on measures imposed by the Canadian government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than the above no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

28. Auditors' remuneration

Details of the amounts paid to the auditor of the Company, RSM UK Audit LLP, and other auditors for audit and non-audit services provided during the year are set out below.

	Consolidated		Parent	
	2021	2020	2021	2020
	\$000'	\$000'	\$000'	\$000'
Fees payable to Elderton Audit (UK) (2020: RSM UK Audit LLP) and its associates in respect of both audit and non-audit services are as follows:				
Audit services – statutory audit of parent and consolidated accounts fees payable to the company's auditor for the audit of the companies annual accounts.	78	80	78	80
Audit of the accounts of subsidiaries	77	108	-	-
Other services				
Audit-related assurance services	-	38	-	25
Taxation advisory services	-	6	-	-
	155	232	78	105

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Opinion

We have audited the financial statements of Structural Monitoring Systems PLC ("the Company" or "Parent Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 30 June 2021 which comprise Consolidated and Parent Company Statements of Financial Position as at 30 June 2021; the Consolidated and Parent Company Statements of Profit and Loss and other comprehensive Income, the Consolidated and Parent Company Statements of Cash Flows and the Consolidated and Parent Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Parent Company and the Group's affairs as at 30 June 2021 and of the Parent Company and the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Going concern</p> <p>The Group reported a net loss after tax of \$1.959m (2020: loss \$2.549m) for the year ended 30 June 2021.</p> <p>Under IAS 1: Presentation of Financial Statements, the directors of the Group are required to assess the appropriateness of the preparation of the financial report on a going concern basis.</p> <p>This area is a key audit matter due to the nature of the business and the current financial position. Should it be inappropriate for the financial statements to be prepared on the going concern basis, the values of certain assets and liabilities as set out in the financial statements would be materially misstated.</p>	<p>Our audit work included, but was not restricted to, the following:</p> <ul style="list-style-type: none"> • Obtaining management's assessment or the going concern basis of preparation by reviewing future plans and tested cash now projections prepared by the Group for consistency with our understanding of planned activities; • Held discussions with management as to any future capital raisings and tested the forecasted cashflows for the twelve-month period from the date of signing the financial statements for mathematical accuracy; • Obtained management's cash flow forecast for the 15 months period from July 2021 to September 2022 and assessed the reasonableness of management's assumptions; • considered subsequent events to determine whether any additional facts or information have become available since the date on which management made its assessment; and • assessing the appropriateness of the related disclosures.
<p>Valuation of inventory</p> <p>Inventory balance is the most significant asset on the Statement of Financial Position of the Group.</p> <p>As note in Note 2(l) of the financial report, inventories comprise raw materials, work in progress and finished goods which are stated at the lower of cost and net realisable value.</p> <p>Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes including an appropriate portion of the variable and fixed overhead expenditure based on normal operating capacity.</p> <p>As a result, judgement is applied in determining the level of provisions required for obsolete inventories and an appropriate apportionment of labour and overhead.</p> <p>We therefore considered this to be a key audit matter.</p>	<p>Our audit work included, but was not restricted to, the following:</p> <ul style="list-style-type: none"> • Performing specific analysis on slow-moving inventory by reviewing and verifying the accuracy of the aged inventory listing and assessed the completeness of the provision for inventory that was significantly aged; including physical observation of inventory was undertaken at the count and no issues noted with respect to condition of inventory. • reviewed the reasonability of the standard overhead rate based on standard operations in recent years and the current year; and • performed NRV testing by selecting samples of products in inventories holding and obtaining evidence of post year-end value.

Our Application of Materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group financial statements as a whole to be AUD 320,115, which represents 2% of the Group's turnover for the year ended 30 June 2021.

This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and to drive the extent of our testing, performance materiality was 75% of our planning materiality for the audit of the Group financial statements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Board that we would report all audit differences in excess of AUD 16,006, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditors' Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken by the course of the audit:

- the information given in the Strategic Report and the Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Director's Report.

We have nothing to report in respect of following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Overview of the Scope of Our Audit

A description of the generic scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeprivate. We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

The Group solely operates in Canada with head office activities carried out by Parent Company in Australia. The Group audit team performed all the work necessary to issue the Group and parent company audit opinion, including undertaking all of the audit work on the risks of material misstatement.

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. Based on the output of our risk assessment, along with our understanding of the Group structure, full scope audit was performed over all companies in the Group. Full scope audit for the component in Canada was undertaken by component auditors.

Responsibilities of directors

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

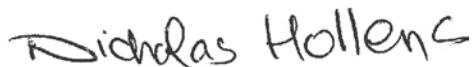
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters

The financial statements of the Group for the year ended 30 June 2020 were audited by another auditor who expressed unmodified opinion on 30 September 2020.

Use of our report

The report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



NICHOLAS HOLLENS
Senior Statutory Auditor for and on behalf of Elderton Audit UK
Statutory Auditor, Chartered Accountants
Perth, Australia
30 September 2021

Annual Report Disclosure on Corporate Governance

The Company has established, and continues to refine and improve procedures to ensure a culture of good corporate governance exists and is respected across the consolidated entity.

The Company has a written policy designed to ensure compliance with ASX Listing Rules and all other regulatory requirements for disclosures. Additionally the Company has adopted a policy designed to ensure procedures to implement the policy are suitable and effective.

The Board wishes to acknowledge that nothing has come to its attention that would lead it to conclude that its current practices and procedures are not appropriate for an organisation of the size and maturity of the Company. The Corporate Governance Policy and the Company's corporate governance practices is set out on the Company's web site at www.smsystems.com.au.

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 20 September 2021.

(a) Distribution of CDI securities

Structural Monitoring Systems Plc		Chess Depository Interest (Total)		
Range of Units As Of 20/09/2021		Composition: CDI		
Range	Total holders	Units	% Units	
1 -1,000	546	296,242	0.24	
1,001 - 5,000	825	2,304,472	1.89	
5,001 - 10,000	388	3,040,612	2.50	
10,001 - 100,000	784	26,126,321	21.45	
100,000 Over	178	90,036,138	73.92	
Rounding			0.00	
Total	2,721	121,803,785	100.00	

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.6600 per unit	758	350	107,981

(b) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Holder	Number of Shares
Drake Special Situations LLC	23,862,500

Shareholder information (continued)

Structural Monitoring Systems Plc

Structural Monitoring Systems Plc

Chess Depository Interest (Total)

Top Holders (Grouped) As Of 20/09/2021

Composition: CDI

Rank	Name	Units	% Units
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	26,110,752	21.44
2	MR PAUL COZZI	4,210,392	3.46
3	BNP PARIBAS NOMINEES PTY LTD <IB NOMS RETAILCLIENT DRP>	3,709,417	3.05
4	CITICORP NOMINEES PTY LIMITED	2,551,031	2.09
5	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	2,500,000	2.05
6	STRAIGHT LINES CONSULTANCY PTY LTD <STRAIGHT LINES CONSULT A/C>	1,775,813	1.46
7	MR STEPHEN CAMPBELL FORMAN	1,739,978	1.43
8	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	1,525,871	1.25
9	BNP PARIBAS NOMS PTY LTD <DRP>	1,507,622	1.24
10	ANODYNE ELECTRONICS HOLDING CORP	1,320,000	1.08
11	ROSHERVILLE PTY LTD <THE AYTON SUPER A/C>	1,160,000	0.95
12	STONY ROSES PTY LTD <BOYLE FAMILY A/C>	1,121,500	0.92
13	LANDMARK CONSTRUCTION PTY LTD <MEYER SHIRCORE UNIT S/F A/C>	1,166,679	0.88
14	MR ROSS MALCOM SPENCER + MR CLINTON LEON SPENCER <SPENCER FAMILY SUPERFUND A/C>	1,040,000	0.85
15	PETER FRANCIS BOYLE NOMINESS PTY LTD <PETER F BOYLE S/FUND A/C>	982,000	0.81
16	MR DAVID MICHAEL BROWN <DB ENTERPRISES MANAGEMENT FUND A/C>	900,000	0.74
17	MR ROSS MALCOM SPENCER + MR CLINTON LEON SPENCER <SPENCER FAMILY SUPERFUND A/C>	862,520	0.71
18	LOOBY HOLDINGS PTY LTD <K & F LOOBY SUPER FUND A/C>	800,000	0.66
19	MR ROBERT GREGORY LOOBY <ROB LOOBY SUPER ACCOUNT>	800,000	0.66
20	AVANTEOS INVESTMENTS LIMITED <4358776 DEBRA A/C>	780,000	0.64
Totals: Top 20 holders of CHESS DEPOSITORY INTEREST (Total)		56,563,575	46.35
Total Remaining Holders Balance		65,340,210	53.65