

ASX ANNOUNCEMENT

ASX: SMN

31 October 2022

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Appendix 4C and Quarterly Update

Highlights

- Wholly owned subsidiary AEM recorded another solid performance for the quarter with revenue totaling \$5.05 million versus \$3.38m for the prior year, up 49%
- October revenue billed strong at \$1.84m versus \$1.26m for the year prior, up 46%
- Appointment of several key aerospace executives, one of which will be based in Europe to anchor the relationship with Airbus
- SMS presented at the Airlines for America Non-Destructive Testing Forum
- SMS successfully completed the POD testing of the 737 APB program with Boeing, with Chief Technical Officer Trevor Lynch-Staunton reporting “flawless” performance of the sensors and instrumentation throughout
- The Company raised \$1.925m before issue costs in September to further accelerate the commercialisation of its groundbreaking CVM™ technology
- Experienced aviation executive Mr Miroljub (Miro) Miletic unanimously recommended to be elected to the Board
- SMS continues to work closely with Delta Airlines towards the first commercial sales of its CVM™ sensors for the B737 Aft Pressure Bulkhead

Structural Monitoring Systems Plc (“SMS” or “the Company”) (ASX: SMN) is pleased to provide the following Quarterly Update summarizing Group performance and prior releases lodged during the quarter ending 30 September 2022.

SMS Group – Summary of Financial Overview and Operational Highlights

Wholly owned subsidiary, Anodyne Electronics Manufacturing Corp (“AEM”) recorded another solid performance for the three months to 30 September 2022 with revenue steady compared to the previous quarter.

The significant uplift in revenue, 49% compared to the prior year is attributable to the highly successful strategic acquisition of Eagle Audio in 2021 and the income derived from the highly profitable owned IP audio products within the AEM product range.

Revenue for the September quarter was down slightly (3.65%) on the previous quarter but October (\$1.84m) and the December quarter (\$4.01m) forward orders are strong, continuing the momentum of the previous 3 quarters and well up on the prior year.

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Normalised EBITDA for the quarter was steady versus the previous quarter and consistent with the year prior. In addition to increased revenue staff costs have increased on the prior year as AEM have made several key hires strengthening the sales & marketing and R&D functions as well as operational and administration departments.

As reported in the previous Quarterly update, AEM's new Kelowna facility in British Columbia Canada is now fully operational and onsite staffing levels back to pre-pandemic levels.

The integration of sales and marketing, research and development and, engineering between the three entities – SMS, CVM™ and AEM, remains ongoing and is assisting with the continued path towards first commercial sales of CVM™ and consolidating resources between the three entities.

Note all figures above are unaudited per management accounts and stated in Australian dollars.

Update on general operational activities for the quarter and post FAA Certification initiatives and activities:

As reported previously, SMS continues to work closely with Boeing and Delta Airlines in pursuing an approval for the use of CVM™ sensors for the B737 Aft Pressure Bulkhead requirements.

The POD testing for the 737 APB application commenced in September and was successfully conducted over 20 business days at AEM's Kelowna facility.

This critical APB application, developed in conjunction with Delta Airlines, has strong market potential for the Company with the full expectation that it will translate into commercial sales in the short to mid-term.

SMS Chief Technical Officer Mr Trevor Lynch-Staunton described the testing of sensors and instrumentation as "flawless throughout the performance and environmental testing" with preliminary statistical analysis conducted by SMS Senior Technical Fellow Dr Dennis Roach indicating that it achieved a 25% margin over the required POD.

The data has now been provided to Boeing for further analysis. The next steps in the approval process, several which are already partially complete, include the documentation of in field data from Delta to Boeing, due for completion in Mid-November as well as crack closure engineering tests.

This will then be followed by the completion of a Reliability Report, a Compliance Data Summary Report and Boeing Service bulletin revision and issuance early in 2023 towards targeted Federal Aviation Administration (FAA) approval between March and May 2023.

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Executive Chairman Ross Love visited the AEM Kelowna facility during the period meeting with key members of the various onsite teams.

Mr Love reported positively on the trip describing the AEM team as having the necessary skills, commitment and expertise to transition CVM™ to commercial sales.

He also announced the recruitment of two key new senior staff members to the team, one of whom will be based in Europe and who will anchor the relationship with Airbus and the other who he believes has the necessary analytical and project management skills to add significant value to the sales and marketing team progressing the Board's commercialisation strategy.

As previously reported, the Company received its first formal request for quotation for the supply of the initial APB sensor kits to Delta Airlines. These negotiations are now well advanced with further updates expected in the near future.

SMS successfully raised AUD \$1.925m during the period through a single tranche placement offered to sophisticated investors resident in Australia and New Zealand and which attracted strong support from both existing and new shareholders.

Executive Chairman Ross Love said that the funds raised would be directed towards the ongoing commercialisation of the Company's CVM™ technology and to ensuring the Company was adequately resourced to capitalise on significant, ongoing discussions with key 'high value' customers in the US and beyond.

The Company attended the Airlines for America Non-destructive Testing Forum in San Antonio, Texas and the Helicopter Association of Canada's 27th Annual Convention and Trade Show in Calgary.

SMS Chief Technical officer Mr Trevor Lynch Staunton and Chief Technical Fellow Dr Dennis Roach presented on the progress of the Company's CVM™ technology with presentations by Delta, Boeing, Embraer and the FAA all containing notable mentions of CVM™.

Mr Lynch-Staunton reported that the CVM™ approval was well represented at the conference with a clear message that CVM™ systems are well and truly in a position to be deployed on aircraft.

Board and Organisational Changes

As referenced in the previous quarterly, SMS welcomed the appointment of global senior executive Mr Ross Love as SMS Executive Chairman in July 2022.

Mr Love has made considerable progress during his short time as Executive Chairman and is working closely with fellow board members and the AEM executive team to progress the Company's CVM™

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commercialisation strategy towards further FAA approvals in early 2023 and to further integrating SMS, CVM™ and AEM to achieve optimal outcomes.

The Board also received a nomination from Mr Miroljub (Miro) Miletic during the quarter to be considered by shareholders for election as a non-executive director of the Company at the forthcoming AGM in November.

During the last six months the Board has thoroughly reviewed its existing skills matrix and succession planning and given considerable thought to the required composition of the Board in the years ahead.

The SMS Board considers Mr Miletic to have the desired sector skills, management and leadership experience and is unanimous in recommending he be elected to the Board at the forthcoming AGM.

An update regarding the Company's response to Requisition Announcement

On 20 October 2022, Drake Management & Affiliates published a lengthy letter on its website making various allegations.

SMS responded to that letter via its solicitors, Gadens, on 25 October 2022 asserting that the letter contained statements that breach s1041H of the Corporations Act – being conduct that is misleading or deceptive or likely to mislead or deceive members of the public, particularly investors, in relation to the shares of Structural Monitoring Systems.

SMS maintains that position. On 27 October 2022 Drake published a response which, with attachments, totals 23 pages. Notwithstanding that SMS does not agree with that response, it does not consider that it is in shareholders' interests to spend the time and expense preparing a detailed reply.

At the end of the day, these are allegations being made to the public without an independent qualified arbiter to determine their correctness. It is SMS's concern that seeking to debate these issues further could result in a form of never-ending paper warfare and simply add to the divisiveness.

The Board considers this issue an ongoing and unnecessary distraction from activities towards securing first commercial sales of CVM™ and the successful implementation of the Board's commercialisation strategy.

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Appendix 4C Details

SMS's cash-at-bank as at 30 September 2022 was \$2.057m with total available funding for future operating activities of \$0.934m. Borrowings at the same date amount to \$7.816m.

The Company raised the sum of \$1.925m before issue costs via a fully subscribed single tranche placement of shares with the purpose of further accelerating the commercialisation of the Company's CVM™ technology.

Payments for Product Manufacturing and Operating Costs of \$2.208m represent wholly owned subsidiary AEM's expenditure allocated to manufacturing and operating.

Payments for Staff Costs of \$2.341m represent salaries for manufacturing, administration, sales and general management activities with increased costs due to new hires across the organisation to meet increasing product demand and to adequately resource both increased sales and marketing activity and to underpin the ongoing implementation of the Board's CVM™ commercialisation strategy.

Payments for Administration and Corporate Costs of \$0.261m represent general costs associated with running the Company including ASX fees, legal fees, audit etc. Company operating cashflow was adversely affected by the one off payment of Tulip Bay settlement costs of \$0.532m during the quarter.

The aggregate amount of payments related to parties and their associates included in the September quarter cash flows from operating activities was \$57,500 in respect to fees paid to directors.

As stated above, the Group cash balance as at 30 September 2022 amounted to \$2.057m. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Structural Monitoring Systems Plc

ARBN

106 307 322

Quarter ended ("current quarter")

30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,205	5,205
1.2 Payments for		
(a) research and development	(141)	(141)
(b) product manufacturing and operating costs	(2,208)	(2,208)
(c) advertising and marketing	(149)	(149)
(d) leased assets	-	-
(e) staff costs	(2,341)	(2,341)
(f) administration and corporate costs	(261)	(261)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(247)	(247)
1.6 Income taxes received/(paid)	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (arbitration costs settlement)	(532)	(532)
1.9 Net cash from operating activities	(673)	(673)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(56)	(56)
(d) investments	-	-
(e) intellectual property ⁽¹⁾	(90)	(90)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3.months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (release of bank guarantee)	-	-
2.6	Net cash used in investing activities	(146)	(146)
(1)	Capitalised R&D expenditure		
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,925	1,925
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(131)	(131)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (repayments of ROU leases)	(178)	(178)
3.10	Net cash from financing activities	1,616	1,616
4.	Net increase in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,262	1,262
4.2	Net cash used in operating activities (item 1.9 above)	(673)	(673)
4.3	Net cash used in investing activities (item 2.6 above)	(146)	(146)
4.4	Net cash from financing activities (item 3.10 above)	1,616	1,616

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3.months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(2)	(2)
4.6	Cash and cash equivalents at end of period	2,057	2,057

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,344	1,803
5.2	Call deposits	-	-
5.3	Bank overdrafts	(287)	(541)
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,057	1,262

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	58
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	5,613	5,093
7.3i Other (equipment lease)	3,137	2,723
7.3ii Other	-	-
7.4 Total financing facilities	8,750	7,816
7.5 Unused financing facilities available at quarter end		934
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>HSBC operating loan facility of C\$5million secured at 6.45% variable, no maturity date, reviewed annually.</p> <p>HSBC equipment lease facility of US\$2.2million, secured at rates of between 2.61% to 5.45% fixed, with a term of between 3-5 years according to the type of equipment financed.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from operating activities (item 1.9)	(673)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,057
8.3 Unused finance facilities available at quarter end (item 7.5)	934
8.4 Total available funding (item 8.2 + item 8.3)	2,991
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.44
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/a	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/a	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/a	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

31 October 2022

Date:

By the Board

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.