



Appendix 4C and Quarterly Update

Highlights

- Wholly owned subsidiary Anodyne Electrics Manufacturing (AEM) recorded a strong financial performance for the reporting period with gross revenue for the December quarter of \$5.36m versus \$5.05m the previous quarter, up 6% - and 58% higher than the December quarter in the prior year.
- Gross revenue for the year to date is currently \$10.40m versus \$6.70m on the year prior, up 55%.
- Forward orders for the March quarter are currently sitting at \$5.33m indicating continued growth in the months ahead.
- NEBITDA for the year to date is \$1.86m versus \$1.42m, up 31% on the year prior.
- AEM announced that it had secured new credit and financing facilities with the Royal Bank of Canada (RBC) to facilitate the Company's growth plans moving forward.
- The Company achieved its first commercial sales of its patented CVM™ technology to Delta Airlines, the world's largest commercial carrier.
- The Company's APB Certification Program continues to remain on track for Q2 approval by the Federal Aviation Administration (FAA).
- The Company's AGM was held in Perth Western Australia in November saw Executive Chairman Ross Love overwhelmingly supported to continue to lead the Company moving forward and the successful appointment of two highly experienced aviation executives to the SMS board.

Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX: SMN) is pleased to provide the following Quarterly Update summarising Group performance and prior releases lodged during the quarter ending 31 December 2022.

SMS Group – Summary of Financial Overview and Operational Highlights

As reported previously the emphasis continues on the ongoing integration of broader operations between the three entities, SMS, CVM™ and AEM to improve efficiencies and outcomes and to consolidate resources across all three operations.

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Update on general operational activities and achievements for the quarter

CVM™ UPDATE

The Company announced in November that it had secured the first commercial sales of its ground-breaking Comparative Vacuum Monitoring (CVM™) technology after receiving its first commercial Purchase Order from Delta Air Lines for an initial four CVM™ Sensor Kits for its Boeing 737NG aircraft.

The confirmation of the first sales marks a significant milestone in the Company's history as SMS progresses conversations with major airlines to widen the use of the technology to incorporate further aircraft and applications.

The confirmation of sale represented a world first sale of a sensor technology validated and certified for detecting critical structural cracks on aircraft.

The use of CVM™ is expected to meaningfully impact industry maintenance inspection methods for applications subject to metal fatigue significantly reducing maintenance costs and hangar time for operators.

Delta Airlines has now provided a draft schedule of the remaining 737 maintenance schedules for calendar year 2023 will be the basis for subsequent sensor kit purchase orders. f

The Company announced the completion of compression testing at Boeing's US based laboratory for the 737 APB application in January and provided an updated timeline for submissions and anticipated approvals.

Chief Technical Officer Mr Trevor Lynch-Staunton P.Eng said the conclusion of testing provided further confirmation of the real-world performance of the Company's ground breaking, patented Comparative Vacuum Monitoring (CVM™) technology and a basis to support future applications.

He said the APB Certification Program remained on track for Q2 approval by the Federal Aviation Administration (FAA) with a Compliance Report due for completion by the end of February.

"The next major program milestone is scheduled for early March, an APB installation on another Delta aircraft.

"This installation will be supervised by Boeing to finalise changes to the Service Bulletin with the expectation of FAA Approval of Deliverables by 15 April 2023 and the Service Bulletin Release from the FAA by 21 April 2023."

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The company is now finalising sales plans other operators of 737 Aircraft with the same requirements and is developing a sales plan for a suite of relevant applications on A-320 aircraft following a thorough analysis of that aircraft's AMP (Authorised Maintenance Plan.)

AEM Update

Wholly owned subsidiary, Anodyne Electronics Manufacturing Corp ("AEM") recorded another impressive performance for the three months to 31 December 2022 with revenue up 6% on the prior quarter and up 58% compared to the year prior.

Forward orders are strong at \$5.33 million for the March quarter, continuing the momentum of the previous four quarters and well up on the year prior.

Normalised EBITDA for the year to date is \$1.86m up from \$1.42m or 31% on the year prior.

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

Its newest product line, digital audio, has exceeded initial sales projections and is poised to continue its strong performance during the next quarter with an anticipated 50% growth in Digital Audio output by the end of the fiscal year.

AEM also continues to increase its production capabilities by adding a total of 10 new employees focused on building capacity and decreasing customer lead times across digital audio, consoles, electronics, and faceplates, as well as adding a new dedicated staff member to its CVM™ manufacturing team.

Digital audio and console product lines continue to surge and are expected to see double-digit growth next quarter, while maintaining a strong sales pipeline and continued improvement on production speed and efficiency – projected to effectively double its output rate by the end of the year.

With two new products introduced to the market this year – Bluetooth Accessory (BAA01) and Mission Transceiver Remote radio (MTR138-000GNW) - and with three new products currently in development and set to release in late 2023, early 2024, AEM continues adding value to its customers.

This past quarter also saw AEM develop the foundation for a Safety Management System (SMS) to obtain Japanese Civil Aviation Bureau (JCAB) approval. This will allow the acceptance and installation of repairs products to its Japanese clients. Transport Canada also conducted a Process Inspection of AEM's facility and processes with no findings observed or identified.

AEM Director of Sales and Marketing Tony Weller and other key AEM executives presented during the quarter at the European Rotor Show in Cologne, Germany in November.

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The event is the flagship rotorcraft event for Europe, supported by both EASA and OEMs. It was well attended with approximately 30% growth over 2021. AEM showcased the digital audio system, avionics consoles and loudspeakers systems and also announced the availability of our first radio product.

The presenting team met with both existing and new customers during the event and identified key growth opportunities for both new and retrofit applications through 2023 and 2024. Following the tradeshow, they team continued with dedicated project meetings on-site in Italy and France.

The Company also announced in January that it had secured new banking, credit and financing facilities via an agreement with the Royal Bank of Canada (RBC).

The new agreed facilities will ensure that AEM has suitable financing options in place to meet the ongoing growth objectives of the Company through 2023 and beyond.

The new facilities will provide AEM with a CA\$3.75m operating line of credit and a CA\$1.25m cashflow term loan to underwrite working capital and enable the Company to refinance the successful acquisition of Eagle Audio which occurred in September 2021.

The facilities replace those with HSBC with settlement of the new facilities with RBC expected to occur early in February 2023.

Corporate Update

The Company held its AGM in Perth Western Australia on November 15, 2022. All of the resolutions proposed at the AGM were carried via a poll with the exception of Resolution 7, which related to additional placement capacity and required a 75% majority to be carried.

In relation to the EGM, which was held on the same day prior to the AGM, only one resolution was carried which resulted in the appointment of Mr Heinrich Loechteken as a director to the SMS Board.

Mr Loechteken has held a variety of executive roles in the aviation and corporate finance fields and has a deep understanding of aircraft leasing and a strong track record of financial and operational restructuring of companies ahead of sale or IPO.

He is currently the CEO of JLPS Ireland Limited, which offers transportation leasing services encompassing aircraft, ships, maritime containers and solar power generation equipment.

Mr Miro Miletic was also appointed to the SMS board at the AGM. Mr Miletic is the Managing Director and Founder of MEMKO Pty Ltd and has an impressive track record of leadership and achievement in the Australian and international aerospace industries.

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His previous leadership positions include Director Engineering & Quality Assurance and Australia Manager Business Development and Planning at The Boeing Company Australia.

Executive Chairman Mr Ross Love said he believed the Company now has a suitably qualified, committed and diverse board in place, with a range of applicable skill sets, to really capitalise on the milestones achieved to date and to take the Company forward in a meaningful way.

Appendix 4C Details

SMS consolidated cash-at-bank as at 31 December 2022 was \$390K with total available financing facilities available of \$1.153m. Total financing facilities drawn at the same date amounted to \$7.584m.

As outlined in section 8 available working capital is expected to increase by \$2.70m during the March 2023 quarter.

Payments for Product Manufacturing and Operating Costs of \$2.120m represent wholly owned subsidiary AEM's expenditure allocated to manufacturing and operating.

Payments for Staff Costs of \$2.208m represent salaries for manufacturing, administration, sales and general management activities and directors' fees.

Payments for Administration and Corporate Costs of \$0.696m represent general costs associated with running the Company including ASX fees, legal fees, audit etc.

Operating cashflow from operating activities was overstated by \$40K in the September quarter due to a discrepancy in the split between interest and principal on ROU lease payments which has now been rectified.

The aggregate amount of payments to related parties and their associates included in the December quarter cash flows from operating activities was \$211,790 in respect to fees paid to directors.

As stated above, the Group cash balance as at 31 December 2022 amounted to \$390K. 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")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,730	9,935
1.2 Payments for		
(a) research and development	(34)	(64)
(b) product manufacturing and operating costs	(2,120)	(4,328)
(c) advertising and marketing	(238)	(387)
(d) leased assets	-	-
(e) staff costs	(2,208)	(4,660)
(f) administration and corporate costs	(696)	(957)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(190)	(396)
1.6 Income taxes received/(paid)	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (Royalty fee and arbitration costs settlement)	(110)	(642)
1.9 Net cash from operating activities	(866)	(1,499)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(77)	(133)
(d) investments	-	-
(e) intellectual property ⁽¹⁾	(440)	(530)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	(517)	(663)
⁽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
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	(22)	(153)
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)	(246)	(464)
3.10	Net cash from financing activities	(268)	1,308
4. Net increase in cash and cash equivalents for the period			
4.1	Cash and cash equivalents at beginning of period	2,057	1,262
4.2	Net cash used in operating activities (item 1.9 above)	(866)	(1,499)
4.3	Net cash used in investing activities (item 2.6 above)	(517)	(663)
4.4	Net cash from financing activities (item 3.10 above)	(268)	1,308

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6.months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(16)	(18)
4.6	Cash and cash equivalents at end of period	390	390

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	853	2,344
5.2	Call deposits	-	-
5.3	Bank overdrafts	(463)	(287)
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	390	2,057

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	212
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

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	5,481	4,793
7.3i Other (equipment lease)	3,256	2,791
7.3ii Other	-	-
7.4 Total financing facilities	8,737	7,584
7.5 Unused financing facilities available at quarter end		1,153
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 7.45% variable, no maturity date, reviewed annually.</p> <p>HSBC equipment lease facility of US\$2.2million, secured at various rates of between 2.61% and 4.41% 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)	(866)
8.2 Cash and cash equivalents at quarter end (item 4.6)	390
8.3 Unused finance facilities available at quarter end (item 7.5)	1,153
8.4 Total available funding (item 8.2 + item 8.3)	1,543
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.78
<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?
	<p>Answer: No. Buy back of inventory, receipt of R&D tax offset and receipts from sales of sensor kits in the March quarter will increase operating cashflow by approx.\$1.50m.</p>
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?
	<p>Answer: Yes. Subsequent to the quarter end wholly owned subsidiary AEM has moved its banking and credit facilities from HSBC to Royal Bank of Canada which will result in the release of approx. \$1.20m currently held by HSBC as collateral security. Receipt of funds is expected during February 2023.</p>

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: Yes. Working capital will increase by \$2.70m in the March quarter as a result of factors disclosed in 8.6.1 and 8.6.2 above.

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.

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.

30 January 2023

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.