**Appendix 4D**

**Half-Year Report for the period ended 31 December 2022**

**Results for announcement to the Market**

**Financial Performance**

| Structural Monitoring Systems Plc - Consolidated | | | |
|---|---|---|---|
| **(AUD'000)** | **Half-year ended 31 Dec 2022** | **Half-year ended 31 Dec 2021** | **Movement %** |
| Revenue | 10,107 | 6,697 | 51% |
| | | | |
| (Loss) before tax attributable to members | (1,982) | (1,506) | (32%) |
| (Loss) after tax attributable to members | (1,934) | (1,472) | (32%) |

**Review of Operations**

Refer to Directors' Report included in the attached half-year period under review.

**Dividends**

No Dividends were paid or declared for payment during the half-year period under review.

**Earnings Per Share**

| | **Half-year ended 31 Dec 2022** | | **Half-year ended 31 Dec 2021** |
|---|---|---|---|
| | | | |
| (Loss) per share (basic & diluted) | (1.47 cents) | | (1.21 cents) |

**Net Tangible Asset Backing**

| | **Half-year ended 31 Dec 2022** | | **Half-year ended 31 Dec 2021** |
|---|---|---|---|
| | | | |
| Net tangible asset backing | 6.37 cents | | 4.11 cents |

**Compliance Statement**

The report is based on financial statements which have been reviewed by the auditor, copies of which are attached.

Signed in accordance with a resolution of Directors.

On behalf of the Directors

Ross Love

Executive Chairman

Dated: 8 March 2023

# HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2022

STRUCTURAL MONITORING SYSTEMS plc

# CONTENTS



# CORPORATE DIRECTORY

**DIRECTORS**
Ross Love
Executive Chairman

Sam Wright
Non-Executive Director

Brian Wall
Non-Executive Director

Miroljub Miletic
Non-Executive Director

Heinrich Loechteken
Non-Executive Director

**COMPANY SECRETARY**
Sam Wright

**REGISTERED AND CORPORATE OFFICE**
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**STATUTORY AUDITORS**
Gravita Audit Limited
(formerly Jeffreys Henry Audit Limited)
Finsgate, 5-7 Cranwood Street
London EC1V 9EE
United Kingdom

**STOCK EXCHANGE LISTING**
Australian Securities Exchange
Home Exchange: Perth, Western Australia

**ASX CODE**
Shares (CDI's): SMN

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**IMPORTANT NOTICES**

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

# DIRECTORS' REPORT

The Directors submit their report for the half-year ended 31 December 2022.

## DIRECTORS

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

| | |
|---|---|
| Ross Love | Executive Chairman |
| Sam Wright | Non-Executive Director |
| Brian Wall | Non-Executive Director |
| Heinrich Loechteken | Non-Executive Director (appointed 15 November 2022) |
| Miroljub Miletic | Non-Executive Director (appointed 15 November 2022) |
| Bryant Mclarty | Non-Executive Director (resigned 15 November 2022) |
| Hendrik Deurloo | Non-Executive Director (resigned 9 November 2022) |

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

## REVIEW OF OPERATIONS

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

### Manufacturing – avionics/audio ("AEM")

AEM's platform recorded an impressive performance during the half-year building on strong revenues generated in the later months of FY2022 with top-line gross revenue for the first 6 months of the current financial year of A$10.09* million v A$6.70 million (up 51%) for the same period in the prior year. Normalised EBITDA** for the first 6 months was A $2.07 million v A$1.42 million in the prior period.(+46%).

Revenue is expected to continue to lift as we move through FY2023 as demand for AEM Audio products continues to gain traction and total revenue is conservatively budgeted for the current year at A$20 million (vs A$15.70 million in the prior year).

Forward looking forecasts assume a continued positive trend in demand for AEM audio products in the aviation industry as it continues its ongoing strong recovery from prior pandemic related disruptions. Forward orders for the March and June quarters remain strong, continuing the positive momentum of the previous four quarters and well up on the year prior. *Including intra-group sales of $0.24 million ** Normalised EBITDA is calculated by adding back SMS expenses of A$0.86 million (2021: A$0.43 million) borne by AEM

The growth in the order pipeline is being driven primarily by the AEM audio line of products, with the addition of several new products expected to continue to positively impact revenues and the free movement of sales staff across global markets also continuing to positively impact sales and orders.

The Company reported during the half year that its newest product line, digital audio, had exceeded initial sales projections and was positioned for ongoing positive growth throughout the year as well as an anticipated 50% growth in digital audio output by the end of the fiscal year.

AEM also boosted its capabilities and resourcing during the period, with the addition of 10 new employees as well as the key appointment of a new dedicated staff member to its CVM™ manufacturing team to boost capacity in that area.

Digital audio and console sales continued to surge with anticipated double digit growth expected next quarter and an expected doubling in its output rate by the end of the year.

AEM also announced the introduction of two new product lines during the period with a further three new products currently in development, with release dates expected late in 2023 and early 2024.

AEM also announced during the period that it had secured new credit and financing facilities with the Royal Bank of Canada (RBC) that will facilitate the Company's growth plans moving forward both in relation to AEM's product suite and towards the ongoing commercialisation of the Company's CVM™ technology.

The new facilities will provide AEM with a CA$3.75m operating line of credit limit 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. Settlement of the new facilities with RBC occurred in March 2023.

## CVM™ ("SMS") Update and Outlook

The Company announced in November 2022 that it had achieved its first commercial sales of its CVM™ technology to Delta Airlines, the world's largest commercial carrier.

The announcement of the sale to Delta Airlines represented a significant milestone for the technology as the Company continues to progress conversations with several major airlines and to identify further key target customers globally.

The Company will also focus on broadening the use of the technology to incorporate other aircraft and applications in order to grow its target market and use of the technology to further generate revenues.

The Company will also continue to focus on the technology's very real value proposition for airlines globally due to its proven ability to meaningfully impact industry maintenance costs and hangar time for operators.

It was also announced in the previous quarterly update that Delta Airlines had provided the Company with a draft schedule of its remaining 737 maintenance schedules for the 2023 calendar year and which are expected to form the basis for subsequent purchase orders moving forward.

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 technology and a basis to support future applications.

The CVM™ business recorded gross revenue of $0.26 million during the half-year.

## APB Update and Outlook

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 expected approvals for the first half of 2023.

The APB Certification Program continues to remain on track for Q2 approval by the Federal Aviation Administration (FAA) with a Compliance Report and draft Service Bulletins due for completion by mid April and an APB installation on another Delta aircraft scheduled for early March.

This installation will be supervised by Boeing and the FAA, with the expectation of both FAA Approval of Deliverables and Service Bulletin Release from the FAA by June 2023.

The company is now finalising sales plans with 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 OEM issued MPD (Maintenance Planning Document).

## Corporate
## Board Appointments

During the half-year, the Company held an EGM at which Mr Heinrich Loechteken was appointed as a Non-Executive Director.

Mr Loechteken has held a variety of 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 a commercial aircraft leasing company managing more than 100 aircraft on lease to various airlines worldwide.

Prior to tasking on his current role Heinrich held senior executive roles at MC Aviation Partners, International Lease Finance Corporation and AerCap.

At the Annual General Meeting of the Company held in Perth, Western Australia on 15 November 2022, Mr Miroljub (Miro) Miletic was appointed as a Non-Executive Director.

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.

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

His contribution to the fields of aviation and aerospace were recognised with an Honorary Doctorate in Engineering (Aerospace) by RMIT University in Melbourne in 2012.

During the half-year, Mr Bryant Mclarty and Mr Hendrik Deurloo resigned as Non-Executive Directors. The Board thanks them for their service and valuable contribution during their time with the Company and wishes them well in their future endeavours.

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

## Corporate
## Capital Raise

On 20 September 2022 the Company completed a successful single tranche placement raising $1.925 million through the issue of 5.5 million CDIs at an issue price of $0.35 per CDI (placement shares) with a one for one free attaching option exercisable at $1.20 with an expiry date of 6 April 2024. Westar Capital Limited acted as Lead Manager for the Placement. The funds raised are to be directed towards funding the ongoing commercialisation of the Company's CVM™ technology.

## Issue of options

Following approval by shareholders at the Annual General Meeting held on 15 November 2022 the Company issued 1,500,000 options to Executive Chairman, Ross Love as part of his remuneration package. The options which have a fair value of $185,095 are in 3 tranches of 500,000 each, exercisable at $0.593, $0.90 and $1.20 and have an expiry date of 14 December 2025.

## Operating Results

The Group incurred an after-tax loss for the half-year ended 31 December 2022 of $1.93 million (2021: $1.47 million), an increase of 31% on the prior period. The loss was attributable to the funding of commercialisation of CVM™ technology, pursuing the Delta program and the costs associated with operating an ASX listed company in Australia. The loss was also attributable to an increase in share-based payments, a reduction in R&D tax incentive received, an increase in employee costs and an increase in depreciation and amortisation charges for the period.

The Group recorded revenues of $10.11 million (2021: $6.70 million), an increase of 51% on the prior period. Key expenses during the period were costs of sales of $5.25 million (2021: $3.55 million) and employee expenses of $3.68 million (2021: $3.23 million). Share-based payments increased to $0.38 million in the period (2021: $0.04 million) as a result of the grant of CDIs, performance rights and options to consultants and a director. Other corporate and administration expenses decreased to $0.84 million during the period (2021: $1.07 million) primarily as a result of the payment of back-dated royalty fees and associated legal costs which occurred during the prior year.

At the reporting date the Group had net assets of $15.44 million (30 June 2022: $15.56 million).

As at 31 December 2022, the Group held cash at bank of $0.85 million (30 June 2022: $1.80 million).

## Future developments

In the short and medium-term the Group will focus on the implementation of its commercialisation strategy for its CVM technology, further developing commercial sales of APB sensor applications and progressing high level discussions with key target customers in the United States and beyond. The Group will also focus on increasing AEM's production capacity to meet demand, to bring new products to markets and on broadening AEM's customer base beyond it's core US/Canadian markets.

## Annual General Meeting

SMS held its Annual General Meeting of Shareholders at The Double Tree by Hilton Hotel, Perth, Western Australia on 15 November 2022.

As a result of the resignation of Hendrik Deurloo, which was announced on 9 November 2022, resolution 4 was withdrawn.

Resolution 7 was not carried by a poll.

All other resolutions were carried via a poll. resolutions that were put to shareholders were passed by a poll.

## Auditor name change

In November 2022 the Company's auditor, Jeffreys Henry Audit Limited changed its name to Gravita Audit Limited.

## SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance date SMS subsidiary AEM changed bankers with RBC taking over from HSBC. The quantum total of loan/credit facilities remain unchanged but the repayment profile has changed with a CA$1.25 million term loan repayable over 8 years instead of CA$5 million repayable at the discretion of the lender. The total facility limit is currently CA$4.37 million.

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

Ross Love

Ross Love
Executive Chairman
Perth, Western Australia
8 March 2023

## Condensed Consolidated Statement of Comprehensive Income
## For the Half-Year Ended 31 December 2022

| | Note | 6 months to 31 Dec 2022 (reviewed) $000' | 6 months to 31 Dec 2021 (reviewed) $000' |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | 10,107 | 6,697 |
| Cost of sales | | (5,254) | (3,555) |
| Gross profit | | 4,853 | 3,142 |
| Other income | | 243 | 753 |
| Depreciation and amortisation | | (1,243) | (539) |
| Administrative and corporate expenses | | (897) | (1,075) |
| Employee expense | | (3,681) | (3,226) |
| Occupancy expenses | | (12) | (9) |
| Research and development expenses | | (142) | (206) |
| Sales and marketing expenses | | (373) | (125) |
| Share-based payments | 6 | (381) | (37) |
| **Loss from continuing operations before income tax and finance costs** | | (1,633) | (1,322) |
| Finance costs | | (345) | (142) |
| Foreign currency translations | | (4) | (42) |
| **Loss before income tax benefit** | | (1,982) | (1,506) |
| Income tax benefit | | 48 | 34 |
| **Net loss attributable to members of Structural Monitoring Systems Plc** | | (1,934) | (1,472) |
| **Other comprehensive income/(expense)** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | (339) | 97 |
| Other comprehensive income/(expense) | | (339) | 97 |
| **Total comprehensive loss for the period** | | (2,273) | (1,375) |
| Basic and diluted loss per share (cents per share) | 7 | (1.47) | (1.21) |

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

## Condensed Consolidated Statement of Financial Position
## As at 31 December 2022

| | Note | As at 31 December 2022 (reviewed) $000' | As at 30 June 2022 (audited) $000' |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 853 | 1,803 |
| Trade receivables | | 3,138 | 3,042 |
| Financial assets | | 1,123 | 1,153 |
| Inventory | *8* | 11,073 | 10,894 |
| Other current assets | *9* | 1,116 | 505 |
| **Total current assets** | | 17,303 | 17,397 |
| | | | |
| **Non-current assets** | | | |
| Plant & equipment | | 1,703 | 1,733 |
| Right-of-use assets | | 7,797 | 8,772 |
| Intangible assets and goodwill | *10* | 6,895 | 7,149 |
| **Total Non-current assets** | | 16,395 | 17,654 |
| **Total assets** | | 33,698 | 35,051 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *11* | 3,790 | 3,710 |
| Borrowings | *12* | 5,144 | 5,461 |
| Lease liabilities | | 1,171 | 1,150 |
| Provisions | | 83 | 132 |
| **Total current liabilities** | | 10,188 | 10,453 |
| | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | | 7,884 | 8,700 |
| Deferred tax | | 184 | 338 |
| **Total non-current liabilities** | | 8,068 | 9,038 |
| **Total liabilities** | | 18,256 | 19,491 |
| **NET ASSETS** | | 15,442 | 15,560 |
| | | | |
| **Equity** | | | |
| Issued capital | *13* | 31,959 | 31,954 |
| Share premium reserve | *13* | 43,211 | 41,327 |
| Other reserves | *14* | (722) | (500) |
| Accumulated losses | | (59,006) | (57,221) |
| **TOTAL EQUITY ATTRIBUTABLE TO MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC** | | 15,442 | 15,560 |

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

## Condensed Consolidated Statement of Cash Flows
## For the Half-Year Ended 31 December 2022

| | Note | 6 months to 31 Dec 2022 (reviewed) $000' | 6 months to 31 Dec 2021 (reviewed) $000' |
|---|---|---|---|
| **Cash flows used in operating activities** | | | |
| Receipts from customers | | 10,263 | 6,678 |
| Payments to suppliers and employees | | (11,131) | (7,592) |
| Income taxes paid | | - | (281) |
| Interest expense | | (345) | (164) |
| **Net cash flows used in operating activities** | | (1,213) | (1,359) |
| **Cash flows used in investing activities** | | | |
| Net cash paid on acquisition of business | | - | (4,521) |
| Payments for development expenses capitalised | | (514) | (515) |
| Payments for plant and equipment | | (129) | (315) |
| **Net cash flows used in investing activities** | | (643) | (5,351) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | (317) | 5,861 |
| Payment for security deposit | | - | (1,100) |
| Repayment of lease liability | | (452) | (254) |
| Proceeds from issue of CDIs | | 1,925 | - |
| Costs of issue | | (150) | (17) |
| **Net cash flows from financing activities** | | 1,006 | 4,490 |
| **Net decrease in cash and cash equivalents** | | (850) | (2,220) |
| Net of borrowing cash and cash equivalents at the beginning of the period | | 1,803 | 2,381 |
| Effect of foreign exchange on balances | | (100) | 132 |
| **Cash and cash equivalents at the end of the period** | | 853 | 293 |
| Cash and cash equivalents | | 853 | 293 |
| Borrowings | | (5,144) | (5,860) |
| **Cash and cash equivalents net of borrowings at the end of the period** | | (4,291) | (5,567) |

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

## Condensed Consolidated Statement of Changes in Equity attributable to the members of Structural Monitoring Systems PLC For the Half-Year Ended 31 December 2022

| Consolidated (reviewed) | Issued capital $000' | Accumulated losses $000' | Share premium reserve $000' | Share-based payment reserve $000' | Foreign exchange reserve $000' | Total equity $000' |
|---|---|---|---|---|---|---|
| **At 1 July 2021** | 31,949 | (53,194) | 36,492 | 643 | (1,876) | 14,014 |
| Loss for the period | - | (1,472) | - | - | - | (1,472) |
| Other comprehensive income/ (expense) | - | - | - | - | 97 | 97 |
| **Total comprehensive loss for the period** | - | (1,472) | - | - | 97 | (1,375) |
| **Transaction with owners in their capacity as owners:** | | | | | | |
| Share-based payments – performance rights | - | - | - | 106 | - | 106 |
| Shares issue costs | - | - | (17) | - | - | (17) |
| **At 31 December 2021** | 31,949 | (54,666) | 36,475 | 749 | (1,779) | 12,728 |
| | | | | | | |
| **At 1 July 2022** | 31,954 | (57,221) | 41,327 | 749 | (1,249) | 15,560 |
| Loss for the period | - | (1,934) | - | - | - | (1,934) |
| Other comprehensive income/ (expense) | - | - | - | - | (339) | (339) |
| **Total comprehensive loss for the period** | - | (1,934) | - | - | (339) | (2,273) |
| **Transaction with owners in their capacity as owners:** | | | | | | |
| Share-based payments – performance rights | - | - | - | 106 | - | 106 |
| Share-based payments – options | - | - | - | 160 | - | 160 |
| Share-based payments – CDIs | - | - | 114 | - | - | 114 |
| CDIs issued on conversion of performance rights | - | 67 | - | (67) | - | - |
| Expiry of performance rights | - | 82 | - | (82) | - | - |
| Issue of CDIs for cash | 5 | - | 1,920 | - | - | 1,925 |
| CDIs issue costs | - | - | (150) | - | - | (150) |
| **At 31 December 2022** | 31,959 | (59,006) | 43,211 | 866 | (1,588) | 15,442 |

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

## 1. GENERAL INFORMATION

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

The interim financial report of the Company as at and for the six months ended 31 December 2022 comprises the condensed consolidated financial statements of the Company and its subsidiaries (together referred to as the “Group”). The Group’s principal activity was the design and manufacture of electronic products and the provision of manufacturing services to the aviation industry.

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

## 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the United Kingdom. The accounting policies are consistent with those set out and applied in the statutory accounts of the Group for the year ended 30 June 2022, which were prepared in accordance with International Financial Reporting Standards as adopted by the United Kingdom.

This condensed consolidated interim financial report is intended to provide users with an update on the latest annual financial statement of Structural Monitoring Systems PLC and its controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this interim financial report to be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2022, together with any public announcements made during the following half-year.

The interim financial information for the period from 1 July 2022 to 31 December 2022 is unaudited. In the opinion of the Directors the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The financial information incorporates comparative figures for the reviewed interim period from 1 July 2021 to 31 December 2021 and audited as at 30 June 2022.

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

The comparative financial information for the year ended 30 June 2022 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts of Structural Monitoring Systems Plc for the year ended 30 June 2022 have been reported on by the Company's auditor, Gravita Audit Limited (formerly Jeffreys Henry Audit Limited), and have been delivered to the Registrar of Companies. The report of the auditor was unqualified. The auditor's report did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

The interim financial report was authorised for issue in accordance with a resolution of the directors on 8 March 2023.

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

The accounting policies have been consistently applied with those of the year ended 30 June 2022 and corresponding interim reporting period.

Certain comparative figures have been reclassified to conform to the current period presentation, whereby management has re- assessed the nature and classification of each accounts:

| Details | 6 months to 31 Dec 2021 as previously reported | Reclassification | 6 months to 31 Dec 2021 as restated |
|---|---|---|---|
| Cost of good sold | (4,073) | 518 | (3,555) |
| Administrative and corporate expenses | (1,338) | 263 | (1,075) |
| Employee expenses | (2,308) | (918) | (3,226) |
| Sales and marketing expenses | (269) | 144 | (125) |
| Finance costs | (164) | 22 | (142) |
| Foreign currency translation | (13) | (29) | (42) |

### Significant accounting estimates

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the consolidated financial statements the significant estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2022.

### Going Concern

The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM, the realisation of assets and discharge of liabilities in the normal course of business and the continued availability of an established line of credit/loan facility of up to CA$5 million, of which CA$4.69 million has been drawn down to date as at the date of this report. The facility, which is provided by AEM's bankers, while payable on demand is secured upon receivables and inventory is subject to loan covenants. Directors expect covenants to continue to be met. Subsequent to the reporting date Royal Bank of Canada (RBC) have replaced HSBC as AEM bankers and the directors expect the company to continue to comply with the terms and covenants of the facility. The current total facility limit is CA$4.37 million.

As disclosed in the condensed consolidated financial statements, the Group incurred a loss after tax of $1.93 million and had net cash outflows from operating activities of $1.21 million for the half-year ended 31 December 2022.

The directors have prepared forecasts in respect of future trading. Achievement of such forecasts would allow the entity to manage 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 revenue and exchange rates based upon their review 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.

## 3. SUBSEQUENT EVENTS

Subsequent to the balance date SMS subsidiary AEM changed bankers with RBC taking over from HSBC. The quantum total of loan/credit facilities remains unchanged but the repayment profile has changed with a $1.25 million term loan repayable over 8 years instead of $5 million repayable at the discretion of the lender. The current total facility limit is CA$4.37 million.

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

## 4. OPERATING SEGMENTS

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

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

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

The Parent Company is registered in the United Kingdom.

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

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

| | CVM™ IP<br>$000' | Avionics/ audio<br>$000' | CVM™<br>$000' | Total<br>$000' |
|---|---|---|---|---|
| **Half-year ended 31 December 2022** | | | | |
| **Revenue** | | | | |
| Revenue from contracts with customers | - | 9,165 | 262 | 9,427 |
| Revenue from the rendering of services | - | 680 | - | 680 |
| Segment revenue | - | 9,845 | 262 | 10,107 |
| **Sales revenue by customer location:** | | | | |
| North America | - | 8,904 | 262 | 9,166 |
| Europe | - | 588 | - | 588 |
| Other | - | 353 | - | 353 |
| Total revenue | - | 9,845 | 262 | 10,107 |
| **Results** | | | | |
| Other revenue | - | 243 | - | 243 |
| Profit/(loss) before tax | (162) | 481 | (2,301) | (1,982) |
| Income tax benefit | - | 48 | - | 48 |
| Profit/(loss) for the period | (162) | 529 | (2,301) | (1,934) |
| **Assets and liabilities** | | | | |
| Segment assets | 75 | 32,658 | 965 | 33,698 |
| Segment liabilities | 109 | 17,514 | 633 | 18,256 |
| Included within segment results: | | | | |
| Depreciation and amortisation | - | 1,242 | 1 | 1,243 |
| Financial expense | - | 345 | - | 345 |
| Foreign currency gains/(losses) | (2) | (24) | 22 | (4) |

## 4. OPERATING SEGMENTS *Continued*

| | CVM™ IP<br>$000' | Avionics/ audio<br>$000' | CVM™<br>$000' | Total<br>$000' |
|---|---|---|---|---|
| **Half-year ended 31 December 2021** | | | | |
| **Revenue** | | | | |
| Revenue from contracts with customers | - | 5,897 | - | 5,897 |
| Revenue from the rendering of services | - | 800 | - | 800 |
| Segment revenue | - | 6,697 | - | 6,697 |
| **Sales revenue by customer location:** | | | | |
| North America | - | 5,766 | - | 5,766 |
| Europe | - | 836 | - | 836 |
| Other | - | 95 | - | 95 |
| Total revenue | - | 6,697 | - | 6,697 |
| **Results** | | | | |
| Other revenue | - | 751 | 2 | 753 |
| Profit/(loss) before tax | (999) | 764 | (1,271) | (1,506) |
| Income tax benefit | - | 34 | - | 34 |
| Profit/(loss) for the period | (999) | 798 | (1,271) | (1,472) |
| **Assets and liabilities** | | | | |
| Segment assets | 185 | 23,326 | 164 | 23,675 |
| Segment liabilities | 621 | 9,831 | 495 | 10,947 |
| Included within segment results: | | | | |
| Depreciation and amortisation | - | 538 | 1 | 539 |
| Financial expense | (46) | (116) | (2) | (164) |
| Foreign currency gains/(losses) | 3 | (16) | - | (13) |

Segment revenues represent revenue generated from external customers. There were inter-segment revenues of $nil (2021: $nil ) in the current period.

## 5. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

| Revenue from contracts with customers by customer location: | 6 months to 31 December 2022 $000’ | 6 months to 31 December 2021 $000’ |
|---|---|---|
| North America | 9,166 | 5,766 |
| Europe | 588 | 836 |
| Rest of world | 353 | 95 |
| Total revenue | 10,107 | 6,697 |

There were no impairment losses on receivables in the statement of comprehensive income for the six months ended 31 December 2022.

## 6. SHARE-BASED PAYMENT EXPENSE

| | 6 months to 31 December 2022 $000’ | 6 months to 31 December 2021 $000’ |
|---|---|---|
| Issue of CDIs to consultant | 114 | - |
| Issue of Performance Rights to consultants | 106 | - |
| Issue of Performance Rights to Director and Executive | - | 37 |
| Issue of Options to Director | 161 | - |
| | 381 | 37 |

### *Chess Depositary Interests (CDIs)*

On 27 September 2022 the Company issued 300,000 CDIs to a consultant of the company as part of his remuneration agreement. The fair value of those CDIs was determined by the closing share price of $0.38 on the grant date of 8 September 2022. The shares are escrowed for 12 months from the date of issue.

### *Performance rights (PRs)*

On 24 October 2022 the Company issued 350,000 PRs to consultants to the company as part of their renumeration agreements. The fair value of those PRs was determined by the closing share price of $0.38 on the grant date of 8 September 2022 and a probability of achieving vesting conditions as estimated by management. Those hurdles and probability estimates are set out below:

## 6. SHARE-BASED PAYMENT EXPENSE *Continued*

| | No. PRs | Performance conditions | Management estimate of probability of satisfying conditions | End date |
|---|---|---|---|---|
| Tranche 1 | 300,000 | Sale of 600 CVM sensors and related equipment | 80% | 31 December 2024 |
| Tranche 2 | 50,000 | Achievement of FAA approval for using CVM technology for the aft pressure bulkhead | 80% | 30 June 2023 |

The fair value of PRs granted during the half-year is $0.106 million.

### *Options over Chess Depositary Interests (Options)*

1,500,000 Options were issued to the Executive Chairman, Ross Love in the current period as part of his employment agreement. The options were granted 28 September 2022 and approved by shareholders at the AGM held on 15 November 2022. The options vest 6 months after the commencement date of Mr Love's employment, 13 January 2023 and expire 14 December 2025.

The expense recognised during the current period on those options was $0.161 million.

The options terms and conditions are set out below:

| | No. options | Exercise price $ | Fair value $ |
|---|---|---|---|
| Tranche 1 | 500,000 | 0.59 | 80,047 |
| Tranche 2 | 500,000 | 0.90 | 58,999 |
| Tranche 3 | 500,000 | 1.20 | 46,049 |

The inputs to the valuation of options granted during the half-year were:

| | |
|---|---|
| Share price at grant date | $0.46 |
| Risk free interest rate | 3.25% |
| Expected life of options | 3 years |
| Dividend yield | 0% |
| Volatility | 94% |

The valuation of options granted was determined using the Monte Carlo Simulation model. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

## 7. LOSS PER SHARE

### Basic loss per share

The basic and diluted loss per share for the half-year ended 31 December 2022 is 1.47 cents per share (2021: 1.21 cents per share).

### Earnings

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

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

| | 6 months to 31 December 2022 $000' | 6 months to 31 December 2021 $000' |
|---|---|---|
| Net loss attributable to equity holders from continuing operations | (1,934) | (1,472) |
| | *Number of shares* | *Number of shares* |
| Weighted average number of ordinary shares for basic loss per share | 131,518,251 | 122,096,538 |
| Weighted average number of ordinary shares for diluted loss per share | 131,745,231 | 123,153,950 |

## 8. INVENTORY

| | As at 31 December 2022 $000' | As at 30 June 2022 $000' |
|---|---|---|
| Raw materials | 7,473 | 7,709 |
| Work in progress | 1,695 | 1,417 |
| Finished goods | 2,020 | 1,852 |
| Provision for obsolescence | (115) | (84) |
| | 11,073 | 10,894 |

## 9. OTHER CURRENT ASSETS

| | As at 31 December 2022 $000' | As at 30 June 2022 $000' |
|---|---|---|
| Prepayments | 535 | 291 |
| GST receivable | 149 | 206 |
| R&D tax incentive receivable | 432 | - |
| Other receivables | - | 8 |
| | 1,116 | 505 |

## 10. INTANGIBLE ASSETS AND GOODWILL

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

| | Goodwill $000' | Certifications $000' | Licence agreement $000' | Technology $000' | Eagle audio IP $000' | Eagle audio Customer relationships $000' | Total $000' |
|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | |
| Balance at 1 July 2022 | 1,613 | 124 | 11 | 2,098 | 3,082 | 221 | 7,149 |
| Development expenses capitalised | - | - | - | 328 | - | - | 328 |
| Amortisation expense | | (120) | (11) | (115) | (160) | (26) | (432) |
| Effect of FX on balances | (39) | (4) | - | (54) | (47) | (6) | (150) |
| Balance at 31 December 2022 | 1,574 | - | - | 2,257 | 2,875 | 189 | 6,895 |

| | Goodwill $000' | Certifications $000' | Licence agreement $000' | Technology $000' | Eagle audio IP $000' | Eagle audio Customer relationships $000' | Total $000' |
|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | |
| Balance at 1 July 2021 | 1,454 | 354 | 32 | 1,878 | - | - | 3,718 |
| Acquired during the year | 66 | - | - | - | 3,203 | 256 | 3,525 |
| Development expenses capitalised | - | - | - | 565 | - | - | 565 |
| Amortisation expense | - | (240) | (22) | (152) | (280) | (43) | (737) |
| Allocation of R&D tax offset | - | - | - | (287) | - | - | (287) |
| Effect of FX on balances | 93 | 10 | 1 | 94 | 159 | 8 | 365 |
| Balance at 30 June 2022 | 1,613 | 124 | 11 | 2,098 | 3,082 | 221 | 7,149 |

## 11. TRADE AND OTHER PAYABLES

| | As at 31 December 2022 $000' | As at 30 June 2022 $000' |
|---|---|---|
| Trade payables | 2,791 | 2,108 |
| Other payables | 981 | 1,569 |
| Taxes payable – HST, payroll tax | 18 | 33 |
| | 3,790 | 3,710 |

## 12. BORROWINGS

Borrowings comprise a CA$5 million facility with HSBC (30 June 2022: CA$5 million) secured on trade receivables and inventory.

The balance owing at 31 December 2022 was $5.144 million (30 June 2022: $5.461 million). Subsequent to the reporting date the facility was replaced with a new Royal Bank of Canada working capital facility of up to CA$3.75 million and an 8 year term repayment loan of CA$1.25 million.

## 13. ISSUED CAPITAL

| | As at 31 December 2022 $000' | As at 30 June 2022 $000' |
|---|---|---|
| ***Ordinary Shares*** | | |
| Issued and fully paid | 31,959 | 31,954 |
| | ***Shares on Issue (no.)*** | ***$000'*** |
| *Movement in ordinary shares in issue* | | |
| At 30 June 2022 | 128,233,149 | 31,954 |
| Issue of CDIs for cash | 5,500,000 | 5 |
| Issue of CDIs to consultant | 300,000 | - |
| Issued on conversion of PRs granted previously | 146,654 | - |
| At 31 December 2022 | 134,179,803 | 31,959 |

| | As at 31 December 2022 $000' | As at 30 June 2022 $000' |
|---|---|---|
| ***Share Premium Account*** | | |
| Share Premium Account | 43,211 | 41,327 |
| | ***Shares on Issue (no.)*** | ***$000'*** |
| *Movement in ordinary shares in issue* | | |
| At 30 June 2022 | 128,233,149 | 41,327 |
| Issue of CDIs for cash | 5,500,000 | 1,920 |
| Issue of CDIs to consultant | 300,000 | 114 |
| Issued on conversion of PRs granted previously | 146,654 | - |
| Issue costs | | (150) |
| At 31 December 2022 | 134,179,803 | 43,211 |

*Share premium account*

The share premium account is used to record increments in the value of share issues when the issue price per share is greater than the par value. The par value of shares is GBP 0.0005 (2021: GBP 0.0005). Costs of the issues are written off against the account.

## 14. RESERVES

| | As at 31 December 2022 $000' | As at 30 June 2022 $000' |
|---|---|---|
| ***Reserves*** | | |
| Share-based payment reserve | 866 | 749 |
| Foreign currency translation reserve | (1,588) | (1,249) |
| | (722) | (500) |

| | Performance rights on issue (PRs) No. | $000' |
|---|---|---|
| ***Share-based payment reserve*** | | |
| Outstanding at 30 June 2022 | 430,608 | 749 |
| | | |
| Grant of PRs – consultants | 350,000 | 106 |
| Conversion of PRs issued previously | (146,654) | (67) |
| Expiry of PRs issued previously | (150,000) | (82) |
| Outstanding at 31 December 2022 | 483,954 | 706 |

| | Options on issue No. | $000' |
|---|---|---|
| Outstanding at 30 June 2022 | 2,730,896 | - |
| | | |
| Issue of free attaching options | 5,500,000 | - |
| Issue of options to director | 1,500,000 | 160 |
| Outstanding at 31 December 2022 | 9,730,896 | 160 |
| Share-based payment reserve | | 866 |

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

### Nature and purpose of reserves

*Share-based payment reserve*

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

*Foreign currency translation reserve*

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

## 15. FINANCIAL RISK MANAGEMENT

### a) Fair Value of Financial Assets and Liabilities

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

### b) Liquidity risk

The following are the contractual maturities of financial liabilities:

| 31 December 2022 | Carrying amount $000' | Contractual cash flows $000' | 1 year or less $000' | Above 1 year $000' |
|---|---|---|---|---|
| Trade and other payables (Note 11) | (3,790) | (3,790) | (3,790) | - |
| Borrowings | (5,144) | (5,144) | (5,144) | - |
| Lease liabilities | (9,055) | (9,055) | (1,171) | (7,884) |
| | (17,989) | (17,989) | (1,171) | (7,884) |

| 30 June 2022 | Carrying amount $000' | Contractual cash flows $000' | 1 year or less $000' | Above 1 year $000' |
|---|---|---|---|---|
| Trade and other payables (Note 11) | (3,710) | (3,710) | (3,710) | - |
| Borrowings | (5,461) | (5,461) | (5,461) | - |
| Lease liabilities | (9,850) | (9,850) | (1,150) | (8,700) |
| | (19,021) | (19,021) | (10,321) | (8,700) |

### c) Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases that are denominated primarily in US dollars whilst the Group's operating subsidiary Anodyne Electronics Manufacturing Corp has a Canadian dollar functional currency. The Group also has exposure to the value of its investment in Canadian subsidiary Anodyne Electronics Manufacturing Corp which is denominated in Canadian dollars.

## 16. COMMITMENTS AND CONTINGENCIES

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

## Directors' Declaration

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

(a) the attached condensed consolidated financial statements and notes of the Group:

   (i) give a true and fair view of the financial position as at 31 December 2022 and the performance for the half-year ended on that date; and

   (ii) comply with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the United Kingdom.

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Ross Love

Ross Love
Executive Chairman
Perth, Western Australia
8 March 2023

## INDEPENDENT REVIEW REPORT TO STRUCTURAL MONITORING SYSTEMS PLC

### Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2022 which comprises the condensed consolidated statement of comprehensive income for the half year ended on that date, the condensed consolidated statement of financial position as at 31 December 2022, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity for the half year ended on that date and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34.

### Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued for use in the United Kingdom” (“ISRE(UK) 2410") issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with UK adopted IFRSs. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, “Interim Financial Reporting”.

### Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE(UK) 2410, however future events or conditions may cause the entity to cease to continue as a going concern.

### Responsibilities of directors

The directors are responsible for preparing the half-yearly financial report in accordance with UK adopted International Accounting Standard 34, “Interim Financial Reporting”.

In preparing the half-yearly financial report, 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 review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

### Use of our report

This report is made solely to the Company in accordance with ISRE(UK) 2410. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Gravita Audit Limited

**Gravita Audit Limited**
Finsgate
5-7 Cranwood Street
London
EC1V 9EE

Date: 8 March 2023

STRUCTURAL
MONITORING
SYSTEMS plc