Appendix 4E

Preliminary final Report

Name of Entity	Structural Monitoring Systems plc
ARBN	35 094 006 023
Year Ended	30 June 2017
Previous Corresponding Reporting Period	30 June 2016

Results for Announcement to the Market

		$'000	**Percentage increase/(decrease) over previous corresponding period**
Revenue from ordinary activities		309	155%
(Loss) from ordinary activities after tax attributable to members		(1,380)	(48%)
Net (loss) for the period attributable to members		(1,380)	(48%)
Dividends (distributions)	**Amount per security**	**Franked amount per security**	
Final Dividend	It is not proposed to pay Dividends		
Interim Dividend	It is not proposed to pay Dividends		
Record date for determining entitlements to the dividends (if any)		Not Applicable	

Dividends

Date the dividend is payable	No dividends
Record date to determine entitlement to the dividend	No dividends
Amount per security	-c
Total dividend	-c
Amount per security of foreign sourced dividend or distribution	-c
Details of any dividend reinvestment plans in operation	No dividends
The last date for receipt of an election notice for participation in any dividend reinvestment plans	No dividends

Net Tangible Assets per Security

	Current Period	**Previous corresponding period**
Net tangible asset backing per ordinary security	2.57c	3.23c

The 30 June 2017 financial report dated 31 August 2017 forms part of and should be read in conjunction with the Preliminary Final Report (Appendix 4E).

This report is based on financial statements that have been audited. The audit report is included in the 30 June 2017 Annual Financial Report.

Company number 4834265

STRUCTURAL
MONITORING
SYSTEMS
plc

Structural Monitoring Systems Plc

Annual Report
2017

Corporate Directory

BOARD OF DIRECTORS

Mr Andrew Chilcott
Non Executive Director

Mr R. Michael Reveley
Executive Director

Mr Ray Lewis
Non Executive Director

CHIEF EXECUTIVE OFFICER
Mr Toby Chandler

COMPANY SECRETARY
Mr Sam Wright

COPORATE OFFICE
Suite 39, 1 Freshwater Parade
Claremont WA 6009
Tel: +61 8 6364 0899
Fax: +61 8 9467 6111
Email: sms@smsystems.com.au

UNITED KINGDOM OFFICE & REGISTERED OFFICE
4 Elwick Road
Ashford
Kent TN23 1PF
United Kingdom

USA OFFICE
1999 Avenue Of The Stars
Suite 1100
Century City, CA 90067
United States
Tel: +1 424 253 1277

SHARE REGISTRY
Computershare Investor Centre Pty Ltd
GPO Box 2975
Melbourne VIC 3001

Enquiries (within Australia) 1300 850 505
Enquiries (from Overseas) +61 3 9415 4000
www.investorcentre.com/contact

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
Mailing Address
PO Box 661
Nedlands Western Australia 6909

AUDITORS
RSM UK Audit LLP
25 Farringdon Street, London EC4A 4AB
United Kingdom

Contents

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).

Year ended 30 June 2017
STRATEGIC REPORT

Dear Fellow Shareholder,

It is my pleasure to present the 2017 Annual Report for Structural Monitoring Systems Plc ("SMS", ASX: SMN).

The past year has seen SMS achieve important new milestones, as the Company continued to build on our status as the commercial "first-mover" in the global aerospace industry for SHM technology adoption. The recently announced, pivotal agreement with Delta Air Lines has moved the Company markedly beyond the R&D phase; SMS has now evolved fully into a strategic commercialisation phase which will unlock multiple opportunities enabling the Company's CVM™ technology to realise its true value proposition.

CVM™ has a variety of applications with, and beyond, aerospace. Successful results on aluminium and composite airframe structures have enabled proven use on commercial aircraft from all major manufacturers, namely Boeing, Airbus, Embraer and Bombardier, as well as broad implementation potential on rotorcraft. The Company has made substantial progress in relation to helicopter testing programmes during 2017, with successful testing of CVM™ equipment in applications specific to Sikorsky civil helicopters, and also with the Boeing Apache AH-64 attack helicopter.

Moving our business into the commercialisation phase led to several changes during the year, most notably the engagement of industry figurehead Dr Dennis Roach and his staff at Sandia Laboratories. Dennis and team will focus on multiple aerospace industry opportunities (commercial and military) and the subsequent commercialisation and regulatory approval of CVM™. Our Board also underwent some restructuring with Ray Lewis replacing David Veitch as a Non-Executive Director and Managing Director Toby Chandler transitioning to the role of Chief Executive Officer, while I transitioned into an Executive Directorship. We believe this composition will serve our Company well through this next phase of our development.

I would like to thank the Board, senior management and SMS/AEM staff for their efforts over the past year. Similarly, the Board would like to thank SMS shareholders for their continued support and belief that the Company can achieve the key goals that have been established over the next few quarters. The coming year will be a transformative one for SMS, as CVM™ is elevated to a new, and unique, commercial reality. I believe all the hard work carried out in recent years will finally be well rewarded.

R. Michael Reveley
Executive Director
31st August 2017

Year ended 30 June 2017
STRATEGIC REPORT (continued)

OPERATIONS REVIEW

Background

Structural Monitoring Systems Plc (ASX: SMN) has developed CVM™ or Comparative Vacuum Monitoring technology. This is a tested and fully-proven technology for in-situ, real-time monitoring of metal fatigue and structural faults in metal and composite materials in wide ranging industries including aviation, civil infrastructure, transportation, defence and construction.

CVM™ technology provides competitive advantages and flexibility in the design and application of structural monitoring systems. CVM™ systems:

- Are simple to install, lightweight and inert with long-term durability;
- Can be implemented in a range of sensor types and configurations to address structural fatigue and structural integrity health monitoring requirements;
- Can be installed in hard-to-access areas for inspection via a remote access point in minutes, reducing maintenance inspection costs and improvements in aircraft operational availability;
- Have fluidic sensors made from radar transparent materials that do not generate electromagnetic or acoustic emissions;
- Can detect and monitor cracks by direct measurement of pressure changes, avoiding complicated processing of complex sensor outputs used in other inspection techniques.

CVM™ is the only commercially-approved technology for "on-aircraft" applications involving cracking, and related structural fatigue, in the world, having been formally approved by Boeing and the US Federal Aviation Administration (FAA) in 2016.

Analysis Using Key Financial Performance Indicators and Milestones

At 30 June 2017, SMS had approximately $A2.9 million cash at bank, which is expected to enable the Company to achieve full licensing (or similar) based commercialisation of CVM™, achieving a cash-flow positive operational platform.

Analysis Using Other Key Performance Indicators and Milestones

On August 17 2017, SMS announced that it executed the world's first commercial agreement related to the supply and permitted use of a structural health monitoring ("SHM") technology with Delta Airlines ("Delta"). This "company making" agreement employed considerable time and personnel resources – and dedicated teams from both SMS and Delta spent many weeks negotiating and fine-tuning the final Agreement. The Company was extremely pleased to have finally executed this critically important Agreement, and was similarly so pleased with the commercial terms that were ultimately agreed. We are very thankful for the support of both Dennis Roach and his team at Sandia Labs, and David Piotrowski and his team at Delta TechOps - both Dennis and Dave are visionary leaders in the SHM industry, and will remain highly valued partners for the Company in the years ahead.

Delta operates one of the largest and most diverse global aircraft fleets in the world. Importantly, Delta is also the largest airline by market capitalization and maintains considerable influence and leadership with global aerospace OEMs. Delta, and Delta TechOps, by virtue of their joint status in the global civil aircraft operator, and maintenance, repair and overhaul ("MRO"), sectors respectively, will remain a powerful relationship for SMS, as the Company formally rolls-out the CVM™ technology platform to other airlines throughout the world.

The Company, via this Agreement, will now move quickly to secure global adoption of CVM™ for "hot-spot" monitoring in civil fixed-wing aviation. This adoption cycle will primarily focus on the retrofit of existing aircraft and, over time, likely move progressively toward the installation of CVM™ at the point of manufacture. The Company's primary initial operational goal of the Agreement with Delta is to approve multiple applications on multiple aircraft types. Once approved, SMS will promote this "portfolio" of applications to all global airline

Year ended 30 June 2017
STRATEGIC REPORT (continued)

operators. With ongoing adoption, licensing revenues - combined with sensor and equipment sales - will be expected to be substantial, and perpetual, in nature. As a Company, we believe that a naturally evolving industry adoption of CVM™ as a unique and fully-validated technology is now virtually assured. As SMS moves towards the establishment of a global portfolio of approved applications, operators will increasingly employ CVM™ technology in order to maximise aircraft utilization, and the associated "in-the-air" revenue to be earned from their respective fleets.

Delta Agreement – some key terms (as previously announced)

SMS and Delta Air Lines, Inc. ("Delta"), have formalised a critical, strategic commercial relationship through the execution of an Aircraft Component Purchase ("ACP") Agreement ("the Agreement").

The key commercial terms, benefits and outcomes of this Agreement including, but not limited to, the following:

- Delta will partner with SMS to identify multiple CVM applications. on multiple aircraft types, across Delta's entire mainline aircraft fleet
- The Agreement is non-exclusive, and is for a 10-year term, with rolling 10-year extension provisions, as agreed at outset by both Parties
- Delta permitted to purchase CVM™ sensors, hardware and related peripheral equipment at a discount to the SMS global catalogue list prices paid by Delta competitors
- Through the purchase of an initial threshold level of CVM™ equipment, Delta will earn the right to receive commissions on all SMS sales of CVM™ equipment, and technology license agreements, transacted with global airline operators. The approximate revenue value associated with these initial threshold sales of CVM™ equipment to Delta is expected to be in the vicinity of $US6-7 million and grow substantially as Delta holistically adopts CVM™ across the fleet.

Collaboration with Sandia Laboratories

SMS and Sandia Laboratories collaborated with a major aircraft OEM to select representative "hot-spot" applications on multiple aircraft types. Currently, several far-reaching, generalised CVM™ Service Bulletin ("SB") revisions have been written for entire aircraft regions (not just single applications). The twin goals of the Programme are to obtain general approval for multiple applications on multiple aircraft models from global regulators, and importantly, to formally have CVM™ as a fully mandated, recognized and accessible tool for future maintenance needs which would not require any subsequent, or case-by-case, regulator approval on these aircraft. Currently, the Company has been informed that the pre-requisite approvals from the key regulators, including the FAA, will be finalized some time over the coming few months.

Later in the year, the Company announced a multi-year contract with Sandia to engage Dr Dennis Roach and his staff to focus on multiple aerospace industry opportunities (commercial and military) and the subsequent commercialisation and regulatory approval of CVM™.

Helicopter programmes

SMS successfully completed the critical initial testing regime for CVM™ sensors in conjunction with Sikorsky Helicopters. CVM™ sensors clearly exceeded the required probability of detection ("POD") threshold levels for the chosen test applications. The primary goal of this Programme is the eventual full integration of CVM™ technology into rotorcraft health and usage monitoring systems ("HUMS").

In addition, SMS confirmed the successful installation of CVM™ sensors on the Apache AH-64 attack helicopter fleet operated by one of the world's sovereign defence forces.

National Aerospace Laboratory, Netherlands ("NLR"), one of the Company's key industry partners overseeing the Company's programmes with the Netherlands Air Force, held a major demonstration workshop on 3 November 2016. Approximately 180 military and global civil aerospace participants were in attendance, where senior NLR personnel demonstrated the capabilities of CVM™ technology.

Year ended 30 June 2017
STRATEGIC REPORT (continued)

In Q4, the Company visited senior NLR personnel in Amsterdam to discuss the Apache military program. The initial installation and data accumulation stages have been completed, and SMS is looking forward to a future rollout of the programme across the Apache fleet.

Principal Risks and Uncertainties

The principal risks and how they are managed are set out on page 14 of the Director's Report.

Future Developments

The Company met with Airbus and Testia (Airbus Group global provider of NDT and SHM) senior management and project engineers in Bremen, Germany, to discuss the initiation of an Airbus/Operator program for CVM™, and the structure of an enhanced engagement with Testia. Dr Dennis Roach, FAA Assurance Centre, also participated in the meetings to update participants in relation to the worldwide status of SHM, and to highlight CVM™'s maturity and highly advanced technology readiness level (CVM™ assessed at TRL 9) - as viewed independently by benchmark industry participants and global regulators.

Important meetings with the Brazilian civil aviation authority, Agenica Nacional de Aviacao Civil ("ANAC") were also successfully held and completed. The concise feedback from ANAC during the meetings indicated that CVM™ is regarded as a fully commercial-ready technology.

SMS entered into a partnership with newly formed Octus Aerospace Solutions Ltd ("OAS"), a highly experienced, aerospace-focused team based in the Middle East, to assist and fast-track supply and/or licensing agreements with some of the world's largest airlines. Senior representatives from SMS, Testia, Airbus and Sandia Labs, held a roadshow in the Middle East with leading airlines to introduce SMS's industry-leading CVM™ technology. OAS pre-arranged meetings with senior management at several of the major airlines in the region - and also with one of the world's largest sovereign wealth funds. All meetings were highly productive and informative, and discussions are ongoing with respect to the broad commercial deployment of CVM™ in the region. Management expects these discussions to accelerate in light of the recently executed Agreement with Delta.

2017 IWSHM Conference

SMS Management and Board members will be attending the 2017 IWSHM conference at Stanford University in September. The biennial workshop aims to assess and highlight the current state-of-the-art technologies in the field of structural health monitoring (SHM), and to discuss and identify key and emerging breakthroughs and challenges in research and development that are critical and unique in SHM. Importantly, industry partners attending and/or presenting material at the conference include senior management from Boeing, Embraer, Airbus, Bombardier, Sikorsky, Testia and the FAA Assurance Center at Sandia Labs. In addition, important US government entities such as the FAA, US Army, Navy and Air Force will also be in attendance and available for meetings with SMS senior personnel.

Toby Chandler
Chief Executive Officer
31st August 2017

Year ended 30 June 2017

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2017.

DIRECTORS

The names of the Company's directors in office during the year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

R. Michael Reveley (Executive Director)

Mr Reveley is managing partner, chief executive and co-portfolio manager 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 chief investment officer 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 USD20bn derivatives portfolio.

Andrew Chilcott (Non-Executive Director)

Mr Chilcott has an extensive international aerospace background including engineering and marketing positions at Rolls-Royce Aero-Engines, sales positions with Airbus and Structural Monitoring Systems which brought Andrew and his family to their current home in Perth, Western Australia. Mr Chilcott was heavily involved in raising the awareness of the patented CVM™ technology internationally during 2006-2008. In the role of Board member, Andrew is excited about seeing the technology reach its full potential for aircraft structural health monitoring. Since 2008, Mr Chilcott has been the State Manager, Western Australia and South Australia for Landis+Gyr a global leader in smart metering infrastructure.

Ray Lewis (Non-Executive Officer)

Ray Lewis is the Vice President of Business Development and "2IC" in Anodyne Electronics Manufacturing Corp's executive team. AEM designs, manufacturers and market its own line of aviation communication equipment, it also utilizes its expertise in these areas under contract with several OEMs.

Ray's major activities and responsibilities include business and product development, sales & marketing, OEM account development, and contracts management. Ray began his aviation career with Northern Airborne Technology (NAT) in 1981, at their original location in Prince George, BC. His next four years were spent working on a variety of helicopters all over western Canada and the US, doing new avionics installations and upgrades of the early generation NAT audio controllers and other unique NAT product. After a 4 year stint at Kelowna Flightcraft, Ray returned to the NAT team. The next 20+ years were a time of major growth for NAT, which provided him the opportunity to take on a variety of roles including Product Support, System Design & Integration, QA Manager, Operations Manager and eventually on to Sales, Marketing and Business Development roles. Ray held the title of Director of International Business Development for NAT at the time of their closure in late 2010.

DIRECTORS' REPORT (continued)

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.

Sam Wright (Company Secretary)

Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. 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 is currently a Non-Executive Director and Company Secretary of ASX listed company, PharmAust Limited. He is also Company Secretary for ASX listed company, Buxton Resources Limited. Mr Wright has also filled the role of Director and Company Secretary with a number of unlisted companies.

Mr Wright is the Managing Director of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies. He has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, and shareholder relations with both retail and institutional investors.

SHAREHOLDER MEETINGS

SMS held its Annual General Meeting of Shareholders at RSM Australia, 8 St Georges Terrace, Perth, Western Australia on Monday 28th November 2016 at 9:00am WST.

All resolutions that were put were unanimously passed on a show of hands.

DIRECTORS' REPORT (continued)

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 ASX to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and to prepare the company financial statements in accordance with IFRS as adopted by the 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 for that period.

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.

DIRECTORS' REPORT (continued)

EVENTS SUBSEQUENT TO BALANCE DATE

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 $1,379,518 (2016: 2,643,371). 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 in the year, is disclosed in Note 14 to the Financial Statements.

DIRECTORS MEETINGS

There were no directors' meetings held during the financial year.

DIRECTORS' REPORT (continued)

REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

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	Other	Equity	Total
30 June 2017	*Cash*	*Shares*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	$	$	$	$	$	$
Michael Reveley	139,305	59,702*	-	-	-	199,007
Toby Chandler**	180,000	-	-	-	-	180,000
Andrew Chilcott	19,950	28,085	-	-	-	48,035
David Veitch***	-	-	-	-	-	-
Ray Lewis****	21,774	-	-	-	-	21,774
Grand Total	**361,029**	**87,787**	**-**	**-**	**-**	**448,816**

	Salary & Fees		Post Employment	Other	Equity	Total
30 June 2016	*Cash*	*Shares*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	$	$	$	$	$	$
Michael Reveley	142,874	97,716	-	-	-	240,590
Toby Chandler**	163,284	130,288	-	-	1,004,731	1,298,303
Andrew Chilcott	30,000	43,429	-	-	-	73,429
David Veitch***	-	22,415	-	-	-	22,415
Grand Total	**336,158**	**293,848**	**-**	**-**	**1,004,731**	**1,634,737**

*Shares earnt as per terms of employement agreement and to be issued at the 2017 AGM subject to shareholder approval
**Resigned on 10 October 2016 as Managing Director and remains Chief Executive Officer
***Resigned on 10 October 2016
****Appointed on 10 October 2016

The remuneration policy of the Group is outlined in Note 20 (b) in the Notes to the Financial Statements.

DIRECTORS' REPORT (continued)

OPTIONS GRANTED AS COMPENSATION

No options over ordinary shares in the Group were granted as incentives to directors or employees during the reporting period.

No shares were issued on exercise of remuneration options.

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

Director	Date Appointed	Ordinary Shares	Percentage of total issued shares of the Company	Options remaining on issue
Specified Directors		No.	%	No.
Toby Chandler	2 May 2011	1,515,000	1.48%	-
Andrew Chilcott	1 March 2012	357,140	0.35%	-
Michael Reveley	28 November 2012	2,713,462	2.65%	-
Ray Lewis	10 October 2016	-	-	-
Total		**4,585,602**	**4.48%**	**-**

The above relates to share and option holdings as at 30 June 2017.

DIRECTORS' REPORT (continued)

AUDITORS

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

	CONSOLIDATED		*PARENT*	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Amounts received or due and receivable by RSM UK Audit LLP for:				
• an audit or review of the financial report of the entity and the Group	19,540	20,611	19,540	20,611
Amounts received or due and receivable by RSM Australia Partners for:				
• an audit or review of the financial report of the principal trading subsidiary	39,500	38,500	-	-
• other services in relation to the entity and any other entity in the Group – tax compliance	5,200	4,600	2,800	2,200
	64,240	63,711	22,340	22,811

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 2017. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2017, the Group's trade creditors represented 10 days' purchases (2016: 5 days).

FINANCIAL POSITION

The net assets of the consolidated entity were $2,632,927 (2016: net assets of $3,290,500).

DIRECTORS' REPORT (continued)

FINANCIAL INSTRUMENTS AND RISKS

The Group does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk. Further information is provided in note 15 to the Financial Statements.

As a result of operations in United Kingdom, USA and Australia, the Group's assets and liabilities can be affected by movements in the UK£/A$ and USD$/A$ 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 foreign currency risk exposure is not deemed to be significant at this time although 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 when deemed prudent.

By order of the Board

R. Michael Reveley
Executive Director
31st August 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 June 2017

		CONSOLIDATED		PARENT	
		2017	2016	2017	2016
	Note	$	$	$	$
Continuing Operations					
Revenue					
Sale of goods		309,347	121,399	-	-
Cost of sales		(188,772)	(105,474)	-	-
Gross profit / (loss)		120,575	15,925	-	-
Other income	4(a)	2,535	8,513	-	-
Impairment charges	4(c)	-	-	(1,128,704)	(2,422,637)
Occupany expenses		(11,673)	(7,986)	(1,288)	-
Research and development expenses	4(d)	(82,079)	(102,166)	-	-
Administrative expenses	4(e)	(1,472,981)	(2,578,813)	(249,526)	(220,734)
Loss from continuing operations before income tax and finance costs		(1,443,623)	(2,664,527)	(1,379,518)	(2,643,371)
Finance income / (costs)	4(b)	64,105	21,156	-	-
Income tax expenses	5(a)	-	-	-	-
Loss after finance costs and tax from continuing operations		(1,379,518)	(2,643,371)	(1,379,518)	(2,643,371)
Loss attributable to members of the parent		(1,379,518)	(2,643,371)	(1,379,518)	(2,643,371)
Other comprehensive income:		-	-	-	-
Total Comprehensive Loss for the Period attributable to members of the parent		(1,379,518)	(2,643,371)	(1,379,518)	(2,643,371)
Loss per share (cents per share)					
- basic for loss from continuing operations	6	(1.35)	(2.66)		
- diluted for loss from continuing operations	6	(1.35)	(2.66)		

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2017

		CONSOLIDATED		PARENT	
		2017	2016	2017	2016
	Note	$	$	$	$
ASSETS					
Non-Current Assets					
Investment in subsidiaries	7	-	-	2,647,302	3,294,520
Total Non-Current Assets		-	-	2,647,302	3,294,520
Current Assets					
Trade receivables	8	9,497	-	-	-
Other receivables	9	14,653	20,059	-	11,272
Cash and cash equivalents	10(b)	2,943,623	3,460,397	-	-
Total Current Assets		2,967,773	3,480,456	-	11,272
TOTAL ASSETS		2,967,773	3,480,456	2,647,302	3,305,792
LIABILITIES					
Current Liabilities					
Trade and other payables	13	334,846	189,956	14,375	15,292
Total Current Liabilities		334,846	189,956	14,375	15,292
TOTAL LIABILITIES		334,846	189,956	14,375	15,292
NET ASSETS		2,632,927	3,290,500	2,632,927	3,290,500
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	14	31,867,455	31,863,592	31,867,455	31,863,592
Share premium reserve	14	22,069,759	21,351,677	22,069,759	21,351,677
Accumulated losses		(49,033,286)	(48,225,326)	(48,994,046)	(48,186,086)
Other reserves		(2,271,001)	(1,699,443)	(2,310,241)	(1,738,683)
TOTAL EQUITY		2,632,927	3,290,500	2,632,927	3,290,500

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

Approved by the Board and authorised for issue on 31st August 2017

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R Michael Reveley, Executive Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 June 2017

		CONSOLIDATED		*PARENT*	
		2017	*2016*	*2017*	*2016*
	Note	*$*	*$*	*$*	*$*
Cash flows from operating activities					
Receipts from customers		299,850	123,357	-	-
Payments to suppliers and employees		(1,337,028)	(1,145,273)	(208,863)	(179,937)
Other income		64,105	21,156	-	-
Net cash flows used in operating activities	10(a)	(973,073)	(1,000,760)	(208,863)	(179,937)
Cash flows from financing activities					
Proceeds from issue of shares (net of costs)		453,764	3,865,246	453,764	3,865,247
Loan to Subsidiary		-	-	(244,901)	(3,685,310)
Net cash flows from financing activities		453,764	3,865,246	208,863	179,937
Net increase in cash and cash equivalents		(519,309)	2,864,486	-	-
Cash and cash equivalents at beginning of year		3,460,397	587,398	-	-
Effects of exchange rate changes on cash and cash equivalents		2,535	8,513	-	-
Cash and cash equivalents at end of year		2,943,623	3,460,397	-	-

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 June 2017

CONSOLIDATED	Issued Capital $	Accumulated Losses $	Share Premium Reserve $	Option Reserve $	Foreign Exchange Reserves $	Total $
At 1 July 2015	31,833,742	(45,581,955)	15,950,201	571,558	(2,271,001)	502,545
Loss for the year	-	(2,643,371)	-	-	-	(2,643,371)
Total comprehensive loss for the year	-	(2,643,371)	-	-	-	(2,643,371)
Transactions with owners:						
Issue of share capital	29,850	-	5,524,120	-	-	5,553,970
Share issue transaction costs	-	-	(122,644)	-	-	(122,644)
Total transactions with owners	29,850	-	5,401,476	-	-	5,431,326
At 30 June 2016	31,863,592	(48,225,326)	21,351,677	571,558	(2,271,001)	3,290,500
Loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Total comprehensive loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Transactions with owners:						
Issue of share capital	3,863	-	718,082	-	-	721,945
Total transactions with owners	3,863	-	718,082	-	-	721,945
Transfer of reserve to accumulated losses	-	571,558	-	(571,558)	-	-
At 30 June 2017	31,867,455	(49,033,286)	22,069,759	-	(2,271,001)	2,632,927

PARENT	Issued Capital $	Accumulated Losses $	Share Premium Reserve $	Share Based Payment Reserve $	Foreign Exchange Reserves $	Total $
At 1 July 2015	31,833,742	(45,542,715)	15,950,201	571,558	(2,310,241)	502,545
Loss for the year	-	(2,643,371)	-	-	-	(2,643,371)
Total comprehensive loss for the year	-	(2,643,371)	-	-	-	(2,643,371)
Transactions with owners:						
Issue of share capital	29,850	-	5,524,120	-	-	5,553,970
Share issue transaction costs	-	-	(122,644)	-	-	(122,644)
Total transactions with owners	29,850	-	5,401,476	-	-	5,431,326
At 30 June 2016	31,863,592	(48,186,086)	21,351,677	571,558	(2,310,241)	3,290,500
Loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Total comprehensive loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Transactions with owners:						
Issue of share capital	3,863	-	718,082	-	-	721,945
Total transactions with owners	3,863	-	718,082	-	-	721,945
Transfer of reserve to accumulated losses	-	571,558	-	(571,558)	-	-
At 30 June 2017	31,867,455	(48,994,046)	22,069,759	-	(2,310,241)	2,632,927

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 June 2017

1 CORPORATE INFORMATION AND AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements of Structural Monitoring Systems Plc for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 31st August 2017 and the statements of financial position were signed on the Board's behalf by Mike Reveley.

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 ASX.

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 Group's functional currency and are rounded to the nearest Australian dollar. The average AUD:GBP rate for the year was 0.5944 (2016: 0.4913) and the reporting date AUD:GBP spot rate was 0.5908 (2016: 0.5556).

(b) Going Concern

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

As disclosed in the financial statements, respectively, the company and consolidated entity incurred losses of $1,379,518 and $1,379,518 and had net cash outflows from operating activities of $208,863 and $973,073 for the year ended 30 June 2017.

These factors indicate significant uncertainty as to whether the company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities, in the normal course of business and at the amounts stated in the financial report.

The directors believe that there are reasonable grounds to believe that the company and consolidated entity will be able to continue as going concerns, after consideration of the following factors:

- Expected revenues from the world's first commercial agreement related to the supply and permitted use of a structural health monitoring ("SHM") technology with Delta Airlines ("Delta").
- The Company's ability to issue additional shares to raise capital in accordance with the Companies Act 2006;
- Further commercial exploitation of the Company's technologies and products at amounts sufficient to meet proposed expenditure commitments; and
- The Company's ability to further reduce operational cost levels, to conserve cash in the event that capital raisings are delayed or partial, having regard to expense reduction efforts that thus far have resulted in, significant cost savings from decreased staff numbers, a reduction of the office space footprint and an outsourced laboratory and workshop functions.

Accordingly, the directors believe that the Company and consolidated entity will be able to continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Company and consolidated entity do not continue as going concerns.

(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 2017 and are applied in accordance with the Companies Act 2006.

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force and as adopted by the E.U. at the reporting date. The Group has 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.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and parent company financial statements.

(d) Accounting standards and Interpretations

The Group has adopted all the new and revised IFRS issued by IASB and as adopted by the E.U. which are mandatory to apply to current financial year. This has had no material effect on the current or prior period results or statement of financial position.

(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 comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 June 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign currency translation

(i) Functional and presentation 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.

(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.

(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 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 June 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Recoverable amount of assets

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) Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 June 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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.

(j) 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.

(k) Share-based payment transactions

The Group provides benefits to employees (including executive 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.

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP), 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

(m) 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.

(n) 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.

(o) Employee Entitlements

Provision is made for long service and annual leave payable to employees on the basis of relevant statutory requirements or contractual entitlements applicable in Australia and other countries.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within credit term.

(q) Investments in subsidiary undertakings

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

(r) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(s) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(t) Critical accounting estimates and judgements

The preparation of financial statements require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

During the year an arbitration award was made in relation to the Company. SMS has issued proceedings in the Supreme Court of Western Australia seeking to overturn the arbitration award. The award is not enforceable without further order of the Supreme Court, and as a result, the dispute is not finalised. As the dispute is the subject of legal proceedings which are not completed, the Company has not provided for this amount in the accounts.

As at 30 June 2017, there are no other critical accounting estimates and judgements contained in the financial report.

(u) Changes in accounting policies and disclosures

In the year ended 30 June 2017, the consolidated entity has reviewed all of the new and revised Standards and Interpretations issued by the IASB that are relevant to its operations and effective for the current annual reporting period.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

It has been determined by the consolidated entity that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to consolidated entity accounting policies.

(v) New Accounting Standards and Interpretations not yet mandatory or early adopted

At the date of this financial report the following accounting standards, which may impact the Group in the period of initial application, have been issued but are not yet effective:

- IFRS 9 Financial Instruments (effective date 1 January 2018) (*)
- IFRS 15 Revenue from contracts with customers (effective date 1 January 2018) (*)
- IFRS 16 Leases (effective date 1 January 2019) (*)
- Amendments to IFRS 2: Clarification or Classification and Measurement of Share-Based Payment Transactions (effective date 1 January 2018) (*)
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (effective date 1 January 2016) (*)
- Amendments to IAS 7: Disclosure Initiative (effective 1 January 2017) (*)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017) (*)

(*) Not yet endorsed by the E.U.

The Group does not anticipate the early adoption of any of the above International Financial Reporting Standards. The effect of these standards is not considered significant.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

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 one industry, being Structural Health Monitoring.

The main geographic areas that the entity operates in are the UK, USA and Australia. The Group has operations in the USA/Canada and Australia. The parent company is registered in the UK so that portion of the loss that pertains to maintaining that company and is disclosed in that segment. The Group no longer has employees based in the UK. All segments are now managed from the Australian office.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2017 and 2016:

	Australia	*US/Canada*	*UK*	*Total*
	$	*$*	*$*	*$*
Year ended 30 June 2017				
Revenue				
Sales to external customers	-	309,347	-	309,347
Revenue from continuing operations	-	309,347	-	309,347
Inter-segment elimination	-	-	-	-
Segment revenue	-	309,347	-	309,347
Sales revenue by customer location:				
Australasia	-	-	-	-
Europe	-	6,781	-	6,781
Americas	-	302,566	-	302,566
Total revenue	-	309,347	-	309,347
Result				
Segment result	(833,023)	(298,216)	(250,814)	(1,382,053)
Other Revenue	-	2,535	-	2,535
Unallocated expenses	-	-	-	-
Loss before tax	(833,023)	(295,681)	(250,814)	(1,379,518)
Income tax expense	-	-	-	-
Loss for the year	(833,023)	(295,681)	(250,814)	(1,379,518)
Assets and liabilities				
Segment assets	2,958,276	9,497	-	2,967,773
Unallocated assets	-	-	-	-
Total assets	2,958,276	9,497	-	2,967,773
Segment liabilities	91,698	243,148	-	334,846
Unallocated liabilities	-	-	-	-
Total liabilities	91,698	243,148	-	334,846
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

3 SEGMENT INFORMATION (continued)

	Australia $	*US/Canada* $	*UK* $	*Total* $
Year ended 30 June 2016				
Revenue				
Sales to external customers	-	121,399	-	121,399
Revenue from continuing operations	-	121,399	-	121,399
Inter-segment elimination	-	-	-	-
Segment revenue	-	121,399	-	121,399
Sales revenue by customer location:				
Australasia	-	-	-	-
Europe	-	62,557	-	62,557
Americas	-	58,842	-	58,842
Total revenue	-	121,399	-	121,399
Result				
Segment result	(569,728)	(1,861,422)	(220,734)	(2,651,884)
Other Revenue	8,513	-	-	8,513
Unallocated expenses	-	-	-	-
Loss before tax	(561,215)	(1,861,422)	(220,734)	(2,643,371)
Income tax expense	-	-	-	-
Loss for the year	(561,215)	(1,861,422)	(220,734)	(2,643,371)
Assets and liabilities				
Segment assets	3,469,963	10,493	-	3,480,456
Unallocated assets	-	-	-	-
Total assets	3,469,963	10,493	-	3,480,456
Segment liabilities	76,310	113,646	-	189,956
Unallocated liabilities	-	-	-	-
Total liabilities	76,310	113,646	-	189,956
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

3 SEGMENT INFORMATION (continued)

	2017 $	2016 $	2017 %	2016 %
Major customers During the year, 2 customers (2016: 2) each accounted for a portion of the Group's revenues:				
Customer 1	302,566	58,842	98%	48%
Customer 2	-	62,557	-	52%
Customer 3	6,781	-	2%	-
	309,347	121,399	100%	100%

4 INCOME AND EXPENSES

	CONSOLIDATED 2017 $	CONSOLIDATED 2016 $	PARENT 2017 $	PARENT 2016 $
(a) Other income				
Foreign exchange gain	2,535	8,513	-	-
(b) Finance income / (costs)				
Bank interest	64,105	21,156	-	-
(c) Impairment charges				
Impairment of investment in subsidiary	-	-	(1,128,704)	(2,422,637)
(d) Research and development expenses				
Research and development costs expensed	(82,079)	(102,166)	-	-
(e) Administrative expenses				
Share based payments	(268,181)	(1,651,463)	(31,596)	(43,200)
Other administrative expenses	(1,204,800)	(927,350)	(217,930)	(177,534)
	(1,472,981)	(2,578,813)	(249,526)	(220,734)

(f) Staff costs

There are no staff costs other than Directors remuneration disclosed in Note 20.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

5 INCOME TAX

	CONSOLIDATED		PARENT	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*

Major components of income tax expense for the years ended 30 June 2017 and 30 June 2016 are:

(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Income tax expense (benefit) reported in statement of comprehensive income	-	-	-	-

A reconciliation of income tax expense applicable to accounting loss before income tax at the Australian statutory income tax rate to income tax expense at the effective income tax rate for the years ended 30 June 2017 and 2016 is as follows:

Accounting loss before tax from continuing operations	(1,379,518)	(2,643,371)	(1,379,518)	(2,643,371)
At the Australian statutory income tax rate of 27.5% (2016: 28.5%)	(379,368)	(753,361)	(379,368)	(753,361)
Expenditure not allowable for income tax purposes	116,532	421,174	1,765	1,924
Deferred tax asset not recognised	262,836	332,187	377,603	751,437
Income tax credit reported in statement of comprehensive income	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

5 INCOME TAX (continued)

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
CONSOLIDATED	$	$	$	$	$	$
Accrued expenses	-	-	(11,378)	(11,768)	(11,378)	(11,768)
Costs deductible over five years	6,745	27,963	-	-	6,745	27,963
Tax losses	10,943,005	11,062,426	-	-	10,943,005	11,062,426
Tax assets/ (liabilities)	10,949,750	11,090,389	(11,378)	(11,768)	10,938,372	11,078,621
Deferred tax not recognised	(10,949,750)	(11,090,389)	11,378	11,768	(10,938,372)	(11,078,621)
Net tax assets/ (liabilities)	-	-	-	-	-	-

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
PARENT	$	$	$	$	$	$
Accrued expenses	-	-	(3,953)	(4,588)	(3,953)	(4,358)
Costs deductible over five years	6,745	27,963	-	-	6,745	27,963
Loan receivable	1,993,774	1,744,594	-	-	1,993,774	1,744,594
Tax losses	1,659,894	1,643,348	-	-	1,659,894	1,643,348
Tax assets/ (liabilities)	3,660,413	3,415,905	(3,953)	(4,588)	3,656,460	3,411,317
Deferred tax not recognised	(3,660,413)	(3,415,905)	3,953	4,588	(3,656,460)	(3,411,317)
Net tax assets/ (liabilities)	-	-	-	-		-

Unrecognised deferred tax assets

	CONSOLIDATED		*PARENT*	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Impairment of investments	-	-	1,993,774	1,744,594
Capital raising costs	6,745	27,963	6,745	27,963
Tax losses	10,943,005	11,062,426	1,659,894	1,643,348
	10,949,750	11,090,389	3,660,413	3,415,905

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not currently probable that future taxable income will be available against which the Group can utilise these benefits.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

6 LOSS 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.

Diluted earnings per share has not been calculated as there were no options on issue which would be potential ordinary shares having a dilutive effect. The number of anti-dilutive options at 30 June 2017 was 1,829,136 (2016: 2,419,698). The movement was due to conversions of unlisted options to shares during the year.

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

	CONSOLIDATED	
	2017	*2016*
	$	*$*
Net loss attributable to equity holders from continuing operations	(1,379,518)	(2,643,371)
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for basic loss per share	102,230,559	99,249,523
Weighted average number of ordinary shares for diluted loss per share	102,230,559	99,249,523

7 INVESTMENTS IN SUBSIDIARIES

	PARENT		
	Loan to Subsidiary Undertaking	*Investment in Subsidiary Undertaking*	*Total*
	$	*$*	*$*
Year ended 30 June 2017			
Cost			
At 1 July 2016	-	46,291,077	46,291,077
Arising during the year	-	481,486	481,486
At 30 June 2017	-	46,772,563	46,772,563
Impairment			
At 1 July 2016	-	(42,996,557)	(42,996,557)
Impairment charge	-	(1,128,704)	(1,128,704)
	-	(44,125,261)	(44,125,261)
Net carrying amount at 30 June 2017	-	2,647,302	2,647,302

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

7 INVESTMENTS IN SUBSIDIARIES (continued)

	PARENT		
	Loan to Subsidiary Undertaking	*Investment in Subsidiary Undertaking*	*Total*
	$	*$*	*$*
Year ended 30 June 2016			
Cost			
At 1 July 2015	-	41,090,135	41,090,135
Arising during the year	-	5,200,942	5,200,942
At 30 June 2016	-	46,291,077	46,291,077
Impairment			
At 1 July 2015	-	(40,573,920)	(40,573,920)
Impairment charge	-	(2,422,637)	(2,422,637)
	-	(42,996,557)	(42,996,557)
Net carrying amount at 30 June 2016	-	3,294,520	3,294,520

The intercompany loan is recognised as an investment based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cash flows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the nature of the loan is that of an investment. The investment has had an impairment charge applied to write the balance down to the net assets of the subsidiary.

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table.

	County of Incorporation	**Type of equity**	**% Equity Interest**	
			2017	**2016**
At cost			**%**	**%**
Structural Monitoring System Limited	Australia	Ordinary share	100	100
Structural Health Monitoring Ltd	United Kingdom	Ordinary share	100	100
Structural Monitoring Systems Inc	United States	Ordinary share	100	100

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

8 TRADE RECEIVABLES

	CONSOLIDATED		PARENT	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Trade receivables	9,497	-	-	-
	9,497	-	-	-

9 PREPAYMENT AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Prepayment	4,167	-	-	-
Other receivable	-	11,272	-	11,272
GST receivable	10,486	5,787	-	-
Interest receivable	-	3,000	-	-
	14,653	20,059	-	11,272

10(a) RECONCILIATION FROM THE NET LOSS AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS

	CONSOLIDATED		PARENT	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Net (loss) for the year	(1,379,518)	(2,643,371)	(1,379,518)	(2,643,371)
Adjustments for:				
Share based payments	268,181	1,651,463	31,596	43,200
Foreign exchange difference	(2,995)	(8,513)	-	-
Write off of uncollectible receivables	11,272	-	11,272	-
Impairment of investment in subsidiary	-	-	1,128,704	2,422,637
Changes in assets and liabilities				
Trade and other receivables	(14,903)	(9,467)	-	-
Trade and other payables	144,890	9,128	(917)	(2,403)
Net cash used in operating activities	(973,073)	(1,000,760)	(208,863)	(179,937)

10(b) CASH AND CASH EQUIVALENTS

Cash at bank	2,943,540	3,460,314	-	-
Cash on hand	83	83	-	-
	2,943,623	3,460,397	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

11 EMPLOYEE BENEFITS

(a) Employees share option plan

The Group has an employee share options plan (ESOP) for the granting of non-transferable options to executive directors and employees with more than six months' service at the grant date.

No options were issued under the ESOP during the reporting period, or during the prior reporting period.

The options are cancelled upon the director or employee leaving the service of the Group.

(b) Pensions and other post-employment benefit plans

In previous years, the Company was below the threshold requiring it to maintain a Stakeholder Pension for its UK employees and there is no equivalent legislation in Australia. As there are no longer any employees based in the UK the Group does not maintain a pension fund.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

12 SHARE BASED PAYMENTS

	CONSOLIDATED		PARENT	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Key management personnel	28,085	1,375,763	-	-
Other consultants	240,096	275,700	31,596	43,200
	268,181	1,651,463	31,596	43,200

The company issued shares and options to employees and professional advisors during the prior year in respect of services performed, which vested immediately. The maximum term of the options is nil (2016: nil) years. The movement in share capital and options is shown in Note 14.

Shares granted to key management personnel as share-based payments are as follows:

Year	**Grant Date**	**Number**	**$**
2016	1 December 2015	435,000	278,400
2016	7 January 2016	697,916	1,004,731
		1,132,916	1,283,131
2017	20 December 2016	15,140	28,085
		15,140	28,085

Share-based payments to key management personnel during the year include $12,410 of directors' fees incurred during the year payable as of year-end (2016: $113,646) and $15,675 of directors' fees incurred during the prior year paid during the year (2016: $21,014).

The weighted average fair value of those equity instruments, determined by reference to market price was $1.86 (2016: $0.64 and $1.55)

These shares were issued as compensation to key management personnel of the Group. Further details are provided in the directors' report and note 20.

13 TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Trade and other payables	334,846	189,956	14,375	15,292
	334,846	189,956	14,375	15,292

Trade payables are non-interest bearing and are normally settled within 60-day terms. Other payables are non-interest bearing and have an average term of 6 months.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

14 ISSUED CAPITAL AND RESERVES

	CONSOLIDATED		*PARENT*	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Ordinary Shares				
Issued and fully paid	31,867,455	31,863,592	31,867,455	31,863,592
Total issued and fully paid	31,867,455	31,863,592	31,867,455	31,863,592

	Shares in Issue (No.)	*$*
Movement in ordinary shares in issue		
At 30 June 2015	95,843,997	31,833,742
Issued on 19 August 2015 - Conversion of unlisted options	1,914,063	9,570
Issued on 3 September 2015 - Conversion of unlisted options	31,250	156
Issued on 1 December 2015 - share based payment	502,500	2,513
Issued on 7 January 2016 - share based payment on conversion of performance rights to shares	697,916	3,490
Issued on 9 February 2016 - Capital Raising	2,642,858	13,215
Issued on 9 February 2016 - share based payment	150,000	750
Issued on 9 February 2016 - Conversion of unlisted options	15,625	78
Issued on 8 April 2016 - Conversion of unlisted options	15,625	78
At 30 June 2016	101,813,834	31,863,592
Issued on 31 August 2016 - Conversion of unlisted options	23,438	117
Issued on 13 September 2016 - Conversion of unlisted options	50,000	250
Issued on 3 October 2016 - Conversion of unlisted options	103,062	515
Issued on 15 November 2016 - Conversion of unlisted options	414,062	2,070
Issued on 20 December 2016 - share based payment	32,173	161
Issued on 27 March 2017 - share based payment	150,000	750
At 30 June 2017	102,586,569	31,867,455

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

14 ISSUED CAPITAL AND RESERVES (continued)

	CONSOLIDATED		PARENT	
	2017	2016	2017	2016
	$	$	$	$
Share Premium Reserve				
Share Premium Reserve	22,069,759	21,351,677	22,069,759	21,351,677

Movement in ordinary shares in issue	*Shares in Issue (No.)*	*$*
At 30 June 2015	95,843,997	15,950,201
Issued on 19 August 2015 - Conversion of unlisted options	1,914,063	262,695
Issued on 3 September 2015 - Conversion of unlisted options	31,250	7,656
Issued on 1 December 2015 - share based payment	502,500	319,088
Issued on 7 January 2016 - share based payment on conversion of performance rights to shares	697,916	1,008,487
Issued on 9 February 2016 - Capital Raising	2,642,858	3,686,786
Share issue transaction costs on 9 February 2016		(122,644)
Issued on 9 February 2016 - share based payment	150,000	231,750
Issued on 9 February 2016 - Conversion of unlisted options	15,625	3,829
Issued on 8 April 2016 - Conversion of unlisted options	15,625	3,829
At 30 June 2016	101,813,834	21,351,677
Issued on 31 August 2016 - Conversion of unlisted options	23,438	5,742
Issued on 13 September 2016 - Conversion of unlisted options	50,000	112,250
Issued on 3 October 2016 - Conversion of unlisted options	103,062	231,375
Issued on 15 November 2016 - Conversion of unlisted options	414,062	101,445
Issued on 20 December 2016 - share based payment	32,173	59,520
Issued on 27 March 2017 - share based payment	150,000	207,750
At 30 June 2017	102,586,569	22,069,759

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

14 ISSUED CAPITAL AND RESERVES (continued)

	CONSOLIDATED		*PARENT*	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Other Reserves				
Option Reserve	-	571,558	-	571,558

	Unlisted Options on Issue	*$*
Outstanding unlisted options at 30 June 2015	2,414,117	571,558
Conversion of unlisted options to shares - 19 August 2015	(1,914,063)	-
Conversion of unlisted options to shares - 3 September 2015	(31,250)	-
Issuance of free attaching options - 9 February 2016	1,982,144	-
Conversion of unlisted options to shares - 9 February 2016	(15,625)	-
Conversion of unlisted options to shares - 8 April 2016	(15,625)	-
Outstanding unlisted options at 30 June 2016	2,419,698	571,558
Conversion of unlisted options to shares - 31 August 2016	(23,438)	-
Conversion of unlisted options to shares - 13 September 2016	(50,000)	-
Conversion of unlisted options to shares - 3 October 2016	(103,062)	-
Conversion of unlisted options to shares - 15 November 2016	(414,062)	-
Transfer of reserve to accumulated losses for expired options	-	(571,558)
Outstanding unlisted options at 30 June 2017	1,829,136*	-

* Unexpired options had an exercise price of $2.25

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 (2016: $0.005). Costs of the issues are written off against the reserve.

Option reserve
The option 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

14 ISSUED CAPITAL AND RESERVES (continued)

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.

15 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:

- Interest rate risk
- Credit and cash flow risk
- Liquidity risk
- Foreign currency 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 and payables. The financial assets are categorised as loans and receivables and the financial liabilities are categorised as other financial liabilities measured at amortised cost.

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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

15 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

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 2016.

		Profit or loss		Equity	
Consolidated - 30 June 2017	**Carrying Value at year end**	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
	$	$	$	$	$
Cash and cash equivalents	2,943,623	29,436	(29,436)	29,436	(29,436)
Consolidated - 30 June 2016					
Cash and cash equivalents	3,460,397	34,604	(34,604)	34,604	(34,604)

		Profit or loss		Equity	
Parent - 30 June 2017	**Carrying Value at year end**	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
	$	$	$	$	$
Cash and cash equivalents	-	-	-	-	-
Parent - 30 June 2016					
Cash and cash equivalents	-	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

15 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

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.

Exposure to credit and cash flow risk

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

	Consolidated Carrying amount		Parent Carrying amount	
	2017	2016	2017	2016
	$	$	$	$
Cash and cash equivalents	2,943,623	3,460,397	-	-
	2,943,623	3,460,397	-	-

The Group's maximum exposure to credit and cash flow risk for trade receivables at the reporting date by geographic region was:	Consolidated Carrying amount		Parent Carrying amount	
	2017	2016	2017	2016
	$	$	$	$
Europe	6,781	-		
Americas	2,716	1,958	-	-
	9,497	1,958	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2016

15 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Impairment losses

The aging of the Group's trade receivables at the reporting date was:

	Consolidated		Consolidated	
	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
	$	$	$	$
Not past due	-	-	-	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	9,497	-	-	-
	9,497	-	-	-

There were no impairment losses at 30 June 2017 (2016: $Nil).

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 - 30 June 2017	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	(334,846)	(334,846)	(334,846)
	(334,846)	(334,846)	(334,846)

Consolidated - 30 June 2016	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	(189,956)	(189,956)	(189,956)
	(189,956)	(189,956)	(189,956)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

15 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

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.

Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), but also the USD, the EUR and the GBP. The currencies in which these transactions primarily are denominated are AUD, USD, GBP.

Exposure to Currency Risk

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

	30 June 2017			30 June 2016		
In AUD	**AUD**	**USD**	**GBP**	**AUD**	**USD**	**GBP**
Cash	2,894,457	49,166	-	3,453,442	6,955	-
Trade and other Receivables	14,653	9,497	-	8,787	11,272	-
Trade and other Payables	77,323	243,148	14,375	61,018	113,646	15,292
	2,986,433	301,811	14,375	3,523,247	131,873	15,292

The directors consider that the Group does not have a significant foreign currency risk exposure.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	**2016**	**2017**	**2016**
AUD:USD	0.7536	0.7283	0.7663	0.7441

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 not made use of long term debt financing, but has instead chosen to raise additional capital by issuing shares.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

16 COMMITMENTS AND CONTINGENCIES

During the year, an arbitration award was made in relation to a dispute between the Company and Tulip Bay Pty Ltd. The arbitrator has ruled in favour of Tulips Bay and a related party in the sum of approximately $280,000 including costs and interest. The Company had issued proceedings in the Supreme Court of Western Australia seeking to overturn the arbitration award. As a result, the dispute is still on going.

17 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*		*Investment ($)*	
		2017	*2016*	*2017*	*2016*
Structural Monitoring Systems Ltd	Australia	100	100	-	-
Structural Health Monitoring Ltd	United Kingdom	100	100	-	-
Structural Monitoring Systems Inc	United States	100	100	-	-
				-	-

Structural Monitoring Systems Plc is the ultimate parent entity and is incorporated in the United Kingdom.

The UK and US subsidiaries are both dormant. The Australian subsidiary carries on the business of developing the Group's structural health monitoring technology.

The intercompany loan was reclassified as an investment for the year ended 30 June 2014 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cash flows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the nature of the loan is likely to be an investment. The investment has had an impairment charge applied to write the balance down to net asset of the subsidiary.

Anodyne Electronics Manufacturing Corporation (AEM), a company of which David Veitch is the President and Ray Lewis is the Vice President, had the following transactions with the Group:

	2017	*2016*
Nature	*$*	*$*
Purchases:		
Manufacturing services	202,097	105,474
Balance outstanding at reporting date:		
Trade and other creditors	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

17 RELATED PARTY DISCLOSURE (continued)

Remuneration paid to the Directors for the year is disclosed in Note 20.

The following are the amounts due to directors at reporting date:

	2017	*2016*
	$	*$*
Due to director – David Veitch	-	15,675
Due to director – Toby Chandler	91,564	36,661
Due to director – Michael Reveley	129,810	35,270
Due to director – Andrew Chilcott	-	15,675
Due to director – Ray Lewis	21,774	-

18 EVENTS AFTER THE BALANCE SHEET DATE

On 17 August 2017 the Company announced that it had executed the world's first commercial supply and marketing Agreement with Delta Air Lines Inc. The Agreement is non-exclusive and is for a ten year term with a rolling ten year extension period.

There were no other matters or circumstances that have arisen since 30 June 2017 that have or may significantly affect the operations, results or state of affairs of the Group.

19 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*	
	2017	*2016*	*2017*	*2016*
	$	*$*	*$*	*$*
Amounts received or due and receivable by RSM UK Audit LLP for:				
• an audit or review of the financial report of the entity and the Group	19,540	20,611	19,540	20,611
Amounts received or due and receivable by RSM Australia Partners for:				
• an audit or review of the financial report of the principal trading subsidiary	39,500	38,500	-	-
• other services in relation to the entity and any other entity in the Group – tax compliance	5,200	4,600	2,800	2,200
	64,240	63,711	22,340	22,811

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

20 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i)Specified directors

Michael Reveley	Executive Director
Andrew Chilcott	Non-Executive Director
David Veitch**	Non-Executive Director
Ray Lewis***	Non-Executive Director
Toby Chandler*	Chief Executive Officer

*Resigned on 10 October 2016 as Managing Director and remains Chief Executive Officer
**Resigned on 10 October 2016
***Appointed on 10 October 2016

(ii)Specified executives

Nil

(b) Remuneration of Specified Directors and Specified Executives

(i) 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 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.

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 Employee Share Option 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 held lapse when the service period is completed.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2017

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(ii)Remuneration of Directors and Executives

	Salary & Fees		Post Employment	Other	Equity	Total
30 June 2017	*Cash*	*Shares*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*	*$*
R Michael Reveley	139,305	59,702*	-	-	-	199,007
Toby Chandler**	180,000	-	-	-	-	180,000
Andrew Chilcott	19,950	28,085	-	-	-	48,035
David Veitch***	-	-	-	-	-	-
Ray Lewis****	21,774	-	-	-	-	21,774
Grand Total	**361,029**	**87,787**	**-**	**-**	**-**	**448,816**

	Salary & Fees		Post Employment	Other	Equity	Total
30 June 2016	*Cash*	*Shares*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*	*$*
R. Michael Reveley	142,874	97,716	-	-	-	240,590
Toby Chandler*	163,284	130,288	-	-	1,004,731	1,298,303
Andrew Chilcott	30,000	43,429	-	-	-	73,429
David Veitch**	-	22,415	-	-	-	22,415
Grand Total	**336,158**	**293,848**	**-**	**-**	**1,004,731**	**1,634,737**

*Shares earnt as per terms of employement agreement and to be issued at the 2017 AGM subject to shareholder approval
**Resigned on 10 October 2016 as Managing Director and remains Chief Executive Officer
***Resigned on 10 October 2016
****Appointed on 10 October 2016

(c) Remuneration options: Granted and vested during the year

No options were granted as equity compensation benefits under the employee share option plan (ESOP) during the financial year.

(d) No shares were issued on exercise of remuneration options

None.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2016

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Option holdings of Directors and Executives

2017	*Balance at beg of period*	*Option held on appointment*	*Options Exercised*	*Net Change Other*	*Balance at end of period*
	No.	No.	No.	No.	No.
Directors					
Toby Chandler*	-	-	-	-	-
Andrew Chilcott	-	-	-	-	-
R. Michael Reveley	-	-	-	-	-
David Veitch**	-	-	-	-	-
Ray Lewis***	-	-	-	-	-
	-	-	-	-	-

2016	*Balance at beg of period*	*Option held on appointment*	*Options Exercised*	*Net Change Other*	*Balance at end of period*
	No.	No.	No.	No.	No.
Directors					
Toby Chandler*	-	-	-	-	-
Andrew Chilcott	-	-	-	-	-
R. Michael Reveley	-	-	-	-	-
David Veitch**	-	-	-	-	-
	-	-	-	-	-

*Resigned on 10 October 2016 as Managing Director and remains Chief Executive Officer
**Resigned on 10 October 2016
***Appointed on 10 October 2016

(f) Shareholdings of Directors and Executives

Shares held in Structural Monitoring Systems Plc:

2017	*Balance at beg of period*	*Share held on appointment/resignation date*	*Granted as Remuneration*	*Options Exercised*	*Net Change Other*	*Balance at end of period*
	No.	No.	No.	No.	No.	No.
Directors						
R. Michael Reveley	2,933,374	-	-	-	(219,912)	2,713,462
Toby Chandler*	5,556,321	-	-	-	(4,041,321)	1,515,000
David Veitch**	180,000	(180,000)	-	-	-	-
Andrew Chilcott	351,000	-	15,140	-	(9,000)	357,140
Ray Lewis***	-	-	-	-	-	-
Total	9,020,695	(180,000)	15,140	-	(4,270,233)	4,585,602

2016	*Balance at beg of period*	*Share held on appointment/resignation date*	*Granted as Remuneration*	*Options Exercised*	*Net Change Other*	*Balance at end of period*
	No.	No.	No.	No.	No.	No.
Directors						
R. Michael Reveley	3,348,635	-	135,000	-	(550,261)	2,933,374
Toby Chandler*	5,956,947	-	877,916	-	(1,278,542)	5,556,321
David Veitch**	120,000	-	60,000	-	-	180,000
Andrew Chilcott	440,000	-	60,000	-	(149,000)	351,000
Total	9,865,582	-	1,132,916	-	(1,977,803)	9,020,695

*Resigned on 10 October 2016 as Managing Director and remains Chief Executive Officer
**Resigned on 10 October 2016
***Appointed on 10 October 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC FOR THE YEAR ENDED 30 JUNE 2017

Opinion

We have audited the financial statements of Structural Monitoring Systems plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and notes to the financial statements, including a summary of 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 group's and of the parent company's affairs as at 30 June 2016 and of the group's and parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) we identified, including 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.

Going Concern

The group is in a start-up and development period and has made significant losses during this time. During this period the group has not generated any significant trading income. There is therefore a risk that the group may not be able to continue as a going concern.

We have reviewed managements forecasts for the next 12 months and challenged the assumptions made to ensure that their conclusion that the group has sufficient resources to continue for the foreseeable future is reasonable. We have audited the disclosures made by management in relation to going concern.

Management's conclusions on going concern are disclosed in the accounting policy disclosures.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as A$62,500 which was not changed during the course of our audit. We agreed with the Management that we would report to them all unadjusted differences in excess of A$1,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
The audit was scoped to ensure that we obtained sufficient and appropriate audit evidence in respect of:-

- the significant business operations of the Group
- other operations which, irrespective of size, are perceived as carrying a significant level of audit risk whether through susceptibility to fraud, or for other reasons
- the appropriateness of the going concern assumption used in the preparation of the financial statements

The audit was scoped to support our audit opinion on the company and group financial statements of Structural Monitoring Systems plc and was based on group materiality and an assessment of risk at group level.

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 auditor's 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.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' 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 its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement [set out on page 9], 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 group's and the parent 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 group or the parent 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.

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

This 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.

RSM UK Audit LLP

Malcolm Pioruet (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Address
Date 31 August 2017

ASX Additional Information

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 31 July 2017.

(a) Distribution of CDI securities

Range of Units Snapshot

Composition : CDI

Range	Total holders	Units	% of Issued Capital
1 - 1,000	596	347,960	0.34
1,001 - 5,000	909	2,554,019	2.49
5,001 - 10,000	451	3,571,625	3.49
10,001 - 100,000	677	21,185,552	20.68
100,001 - 9,999,999,999	120	74,777,236	73.00
Rounding			0.00
Total	2,753	102,436,392	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.0000 per unit	0	0	0

(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 Private Investments	21,750,000

ASX Additional Information (continued)

(c) Twenty largest CDI holders (ASX Code: SMN)

The names of the twenty largest holders of quoted CDI securities are

Rank	Name	Units	% of Units
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	25,614,660	25.01
2.	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	4,416,572	4.31
3.	BNP PARIBAS NOMINEES PTY LTD	3,661,026	3.57
4.	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	2,500,000	2.44
5.	MR STEPHEN CAMPBELL FORMAN	1,900,000	1.85
6.	STRAIGHT LINES CONSULTANCY PTY LTD	1,798,293	1.76
7.	MR PAUL COZZI	1,700,000	1.66
8.	MR TOBY ROBERT SECRETAN CHANDLER	1,515,000	1.48
9.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,264,880	1.23
10.	LANDMARK CONSTRUCTION PTY LTD	1,066,679	1.04
11.	CITICORP NOMINEES PTY LIMITED	1,040,310	1.02
12.	MR BILLY HARKIN + MRS AMANDA ANNE HARKIN	1,025,500	1.00
13.	ANODYNE ELECTRONICS HOLDING CORP	1,000,000	0.98
14.	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	920,136	0.90
15.	AVANTEOS INVESTMENTS LIMITED <4358776 DEBRA A/C>	900,000	0.88
16.	MR DAVID MICHAEL BROWN	900,000	0.88
17.	MR ROSS MALCOLM SPENCER + MR CLINTON LEON SPENCER	862,520	0.84
18.	BACTENCE PTY LTD <PYNFITE BACTENCE S/FUND A/C>	850,000	0.83
19.	MR MARTIN H MANN	625,000	0.61
20.	KINETIC TRADE PTY LTD <THE SKINNER S/F A/C>	621,000	0.61
Totals: Top 20 holders of CHESS DEPOSITORY INTEREST (TOTAL)		**54,181,576**	**52.89**
Total Remaining Holders Balance		**48,254,816**	**47.11**

CORPORATE GOVERNANCE STATEMENT

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.

NOMINATION MATTERS

The following list identifies those directors and officers who are members of the Nomination Committee.

Name:
Michael Reveley (Chair)
Sam Wright
Toby Chandler

There were no meetings of the nomination committee.

AUDIT MATTERS

The following list identifies those directors and officers who are members of the Audit Committee.

Name	No of meetings attended
Michael Reveley (Chair)	1
Sam Wright	1
Toby Chandler	1

Details of each director's qualifications are set out in the Director's Report.

All current members of the Audit Committee have relevant qualification in financial and accounting experience.

REMUNERATION MATTERS

Remuneration Policy
Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms part of the Directors' Report and the Notes to the Financial Statements.
Remuneration Committee Function

Name	No of meetings attended
Michael Reveley (Chair)	1
Sam Wright	1
Toby Chandler	1

CORPORATE GOVERNANCE STATEMENT (continued)

OTHER

Skills, Experience, Expertise and term of office of each Director
A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report. There is no set term of office for any Director.

Assurances to the Board
The Board has required management to implement and maintain risk management and internal control systems to manage the Company's materials business risks. (A summary of the Company's policy on risk oversight is available on the Company's website, a summary of the Company's risk management of material business risks is provided below.) The board also requires management to report to it confirming that those risks are being managed effectively. Further the Board has received an assurance from management that the Company's management of its material business risks are effective.

Also the Chief Executive Officer and the Chief Financial Officer have provided a declaration in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk.

Summary of Company's System & Processes on the management of material risks:

The Company has included a summary of its risk management policy, and its systems and processes for managing material business risks on its website at www.smsystems.com.au.

Identification of Independent Directors and the Company's Materiality Thresholds

In considering the independence of directors, the Board refers to its *Policy on Assessing the Independence of Directors* (available on the Company's website).

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's *Board Charter* (available on the Company's website):

- Balance sheet items are material if they have a value of more than 5% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 5% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 5% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 5%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The directors of the Company are all considered to be independent.

Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's Policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

CORPORATE GOVERNANCE STATEMENT (continued)

Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

Confirmed. The Board Performance Evaluation Policy is available at www.smsystems.com.au in the Corporate Governance Statement.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for non-executive directors (other than for superannuation).