

ASX ANNOUNCEMENT

ASX: SMN

31 OCTOBER 2017

**STRUCTURAL
MONITORING
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plc



APPENDIX 4C - QUARTERLY REPORT AND BRIEF COMPANY UPDATE

Highlights:

- During the quarter, SMS executed a pivotal Aircraft Component Purchase ("ACP") Agreement with Delta Air Lines, Inc. 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 and SMS are fully aligned to identify, and gain OEM/Regulator approval for, multiple applications on all aircraft types across the entire Delta fleet
- In-aircraft applications will be approved for CVM™ via OEM issued Service Bulletin ("SB") Revisions and/or Regulator mandated Airworthiness Directive ("AD") Global Alternative Means of Compliance ("AMOCs"). Thus, CVM™ to receive global installation approval - from both OEMs and Regulators - enabling unfettered adoption across all the world's commercial airline fleets
- Delta TechOps will evaluate the provision of CVM™ installations to its key airline carrier customers, namely Delta Complete Fleet™ Services customers. TechOps, based in Atlanta, GA, is the largest airline maintenance, repair and overhaul facility ("MRO") in North America, and third largest in the world
- To date, Delta has identified multiple applications for potential commercially-viable CVM™ use on Airbus and Boeing aircrafts. Further, Delta, in conjunction with their in-house Airbus and Boeing representatives, continue work to identify additional use cases for CVM™ and prepare the path for industry approval. The Company is extremely pleased with the material progress achieved to date with Delta and will provide a comprehensive update in the near future.
- SMS attended the International Workshop on Structural Health Monitoring ("IWSHM") held at Stanford University in September. Meetings were conducted with representatives from the FAA, Boeing, Airbus, Embraer, Sikorsky, Testa and Delta with respect to the advancement of the technology and the path/speed of industry adoption. Importantly, Embraer announced during their keynote address to the Workshop that CVM™ technology was now out of the R&D division and ready to onboard onto aircrafts. The next steps will involve SMS and Embraer teams moving towards discussing commercial implementation.
- On October 12th, Executive Director, Michael Reveley, presented at the ASX Spotlight Conference in New York City. The conference is designed to focus on ASX-listed companies and was attended by a significant number of North American institutional investors and family offices. The presentation was well received and followed up with several one-on-one meetings with interested investors at the conference venue. Mr. Reveley also met with several other institutional investors during the trip that are not currently shareholders but are now progressing through various stages of the due diligence process on the Company.

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- Cash at bank as at 30 September 2017 was approximately \$A2.5 million, seeing the Company fully funded to achieve full, licensing based commercialisation of CVM™.

Structural Monitoring Systems plc ("SMS" or "the Company") (ASX: SMN) is pleased to release its September Quarterly Report and 4C for the period ending 30 September 2017.

During the quarter, the Company signed and announced a critical strategic commercial relationship with Delta Airlines ("Delta") through the execution of an Aircraft Component Purchase ("ACP") Agreement ("the Agreement"). The Company provided a brief summary of some of 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

A major global carrier's adoption and fleet-wide installation of CVM™ technology, would lead the global commercial aviation sector to full, widespread use of CVM™ products. Subsequent sales of CVM™-related equipment to the world's remaining airline carrier fleets would be expected to generate revenues that are many multiples higher than those revenues generated with Delta - and this excludes the per annum revenue value that would be derived from annual, continuously renewable CVM™ technology licensing agreements. The commercial value of technology license agreements will ultimately peak at approximately \$US10-15 million, on a per annum/per operator basis, for a typical Tier I airline operator.

As a direct result of the Agreement, SMS expects material revenue growth across its platform of products in the future. Importantly, due to the Company's extremely high operating leverage, SMS also similarly operates at an extremely high revenue margin. This is due to a number of contributing factors, including, but not limited to:

- Sensor production volume is highly scalable with the addition of low-cost/high-output, laser cutting machines
- Current production facilities have material, embedded excess capacity. Thus, significant output increases can be realised with negligible effect on direct operating costs and total overhead
- The likelihood of a third-party, high profile organisation completing on-site airline operator installations, training and support in the future - with limited input required from SMS and/or AEM personnel. SMS already has an MoU agreement in place with Testia, an Airbus Group Company - that is highly suited to performing such a role.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Structural Monitoring Systems plc

ARBN

106 307 322

Quarter ended ("current quarter")

September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs		
(c) advertising and marketing		
(d) leased assets		
(e) staff costs	(97)	(97)
(f) administration and corporate costs	(305)	(305)
1.3 Dividends received (see note 3)		
1.4 Interest received	6	6
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (GST)	(5)	(5)
1.9 Net cash from / (used in) operating activities	(401)	(401)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property		
(e) other non-current assets		
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares		
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options		
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities		

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,944	2,944
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(401)	(401)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(3)	(3)
4.6	Cash and cash equivalents at end of quarter	2,541	2,541

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	2,541	2,944
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,541	2,944

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
42

Director's Wages & Salaries

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities		
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	
9.2 Product manufacturing and operating costs	
9.3 Advertising and marketing	
9.4 Leased assets	
9.5 Staff costs	75
9.6 Administration and corporate costs	250
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	325

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

Compliance statement

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

Sign here: 

(Company Secretary)

31 October 2017

Date:

Sam Wright

Print name:

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.