ASX ANNOUNCEMENT
ASX: SMN
31st JANUARY 2018

STRUCTURAL MONITORING SYSTEMS plc

APPENDIX 4C – DECEMBER QUARTERLY REPORT AND BRIEF COMPANY UPDATE

Highlights

- **Successful acquisition of SMS's aerospace-certified contract manufacturer Anodyne Electronics Manufacturing Corporation ("AEM")**
- **Acquisition of AEM provides SMS with a fully integrated R&D and manufacturing platform for the production of CVM™ sensors and related equipment**
- **SMS now oversees and fully controls the critical manufacturing, engineering and testing of the Company's CVM™ technology platform. This coincides with the commencement of SMS's global commercial rollout of CVM™ to major aerospace OEMs and airline operators**
- **AEM earned approximately C$13.2 million in revenue and C$1.8 million in *normalised* EBITDA in the year ended 30th September 2017. SMS is now fully profitable on a pro-forma basis, post the transaction due to the low operating expenditure of the Company**
- **Delta Programme Update: Delta has formally submitted multiple applications for the use of CVM™ sensors to the largest global OEM's. In addition, the Delta-Sandia team recently sponsored a meeting with over twenty key FAA and OEM representatives to discuss the progression and incorporation of Structural Health Monitoring ("SHM") technologies, with a particular focus on CVM™, in order to facilitate more routine and broad use across multiple aircraft platforms**
- **Other operators, in addition to Delta, have now submitted applications to OEMs/Regulators for CVM™ use**
- **First CVM™ commercial revenues are anticipated in late-2018, following formal approval from relevant OEM's and/or regulators**
- **The Company expects to commence returning capital to shareholders in 2018 and/or 2019, based on estimated future revenue streams**
- **Cash at bank as at 31 December 2017 was approximately $4.5 million**

Structural Monitoring Systems plc ("SMS" or "the Company") (ASX: SMN) is pleased to release its December Quarterly Report and 4C for the period ending 31 December 2017.

ASX ANNOUNCEMENT
ASX: SMN
31st JANUARY 2018

STRUCTURAL MONITORING SYSTEMS plc

AEM Acquisition

During the quarter, the Company executed a landmark transaction in purchasing 100% of Anodyne Electronics Manufacturing Corporation ("AEM") for C$10 million.

AEM is SMS's aerospace-certified contract manufacturer, and independently is a leading designer and manufacturer of a wide range of aerospace products including avionics, aircraft audio systems, intercoms, tactical FM radio systems, illuminated panels and display products, external PA systems, audio amplifiers, audio adapters and remote switch assemblies.

The acquisition enables SMS to complete its transformation from an R&D-focused "IP silo" company, to one transacting at commercial arm's-length with some of the world's pre-eminent aerospace companies, aiming to fully integrate the CVM™ technology into the global aerospace industry.

The acquisition of AEM creates a "turn-key", vertically integrated platform of 90+ personnel and eight divisions – Sales, R&D, Finance, Human Resources, Quality Control, IT, Manufacturing and Maintenance/Repairs. A platform of this scale is consistent with the requirements and demands of *all* large aerospace customers, and as such SMS Management views this acquisition as strategically paramount.

AEM earned approx. C$13.2 million in revenue and C$1.8 million in normalised EBITDA in the year ended 30th September 2017. The Company's historical revenue and EBITDA consistency has been greatly supported by the continued strength of its key relationship with Cobham Plc, and adjustment of its sales mix towards increasingly AEM-branded, higher value product lines. AEM leadership has built a robust platform enabling this trend to continue, as its new product lines ramp up and new customer relationships begin to yield added dividends. Direct Cobham sales are expected to also increase in absolute terms.

AEM has relationships with many OEMs, Tier 1 to Tier 3 suppliers, other manufacturers, as well as a global network of aircraft and component dealers, which has allowed it to diversify its revenue base and product and service offering. Becoming an OEM-certified manufacturer is definitively a long-term, time and cost-intensive process. These relationships hold substantial value for the future of AEM's legacy businesses, given the buying power and broad influence that global OEMs represent.

To complete the transaction, SMS undertook a share placement in November to raise $13 million. Drake Private Investments, SMS's New York-based long-standing benchmark investor, along with SMS and AEM senior personnel, invested more than $3 million in the Placement. The excess funds raised in the Placement will be retained to maintain a strong liquidity position, and a near-optimal level of strategic cash reserves.

Delta Programme Update

On 10th January 2018, the Delta-Sandia teams met with over 20 key personnel from the FAA and the largest North American aerospace OEM to discuss the progression and adoption of SHM, and in particular the use of CVM™, into more routine and broad use across multiple civil aircraft platforms. Meeting participants included OEM Aviation Representatives (ARs) and FAA personnel from the Transport Aircraft Directorate (TAD – responsible for policy), Seattle Aircraft Certification Office (SACO – responsible for

directives) and the Los Angeles FAA Aircraft Certification Office (ACO). ARs are certified individuals in particular disciplines, (structures, interiors, NDI, avionics, etc.) that provide the necessary signatures to formalise changes in aircraft maintenance practices, such as the use of CVM™ systems. SMS has already completed this process in its Delta in-flight program, producing the formal approval for embedded CVM™ sensor use on all 737 aircraft centre wing boxes.

To date, Delta has identified and formally submitted multiple applications for CVM™ for approval on their fleet. Ultimately, the need for *both* OEM *and* Regulatory approval is highly desirable, and critical. The main purpose of the meetings was to review the completed programmes (existing validation database), present the prospects for near-term and long-term SHM/CVM™ usage (Condition Based Maintenance, Prognostic Health Management) and obtain feedback on the bigger picture – and critical - goal of integrating SHM into the overall Aircraft Health Management (AHM) systems which are the latest innovation for monitoring every system on an aircraft.

In summary, the outcome of the meeting was very positive for SMS. The ARs and FAA ACO personnel agreed to progress CVM™ approvals once the supporting data is presented. Delta has already submitted formal requests to OEM Customer Service. This results in project numbers which produce the official engagement from FAA TAD and ACO offices. Importantly, FAA review and approval processes were discussed to streamline the time required for SB and AD modifications. As previously indicated, SMS now expects to have multiple approvals for use of CVM™ from one or more global OEMs, and when necessary from the FAA/EASA, in 2018.

David Piotrowski, Senior Principal Engineer, Delta TechOps commented:

"The largest North American OEM is currently reviewing five applications for CVM™ on behalf of Delta and importantly, for Southwest Airlines as well. In addition, the OEM has independently indentified multiple CVM™ applications for civilian and military/transport aircraft as a result of a fleet review currently in-process. This clearly demonstrates the momentum building within the industry as other carriers are now requesting information on the programme, and becoming participants which in turn engages active OEM's support. All applications have been officially submitted to the OEM with Delta requesting modification of the Service Bulletin and an AMOC (Alternative Means of Compliance) to affected AD's (Airworthiness Directives)."

"Further, there are four applications under consideration at the largest European OEM. These four applications have not been officially submitted by Delta to the OEM but we anticipate doing so shortly. Delta is currently reviewing all of our maintenance programs to find those tasks which occur at inconvenient times (i.e. those that don't line up with scheduled maintenance, so we have to take aircraft out of service). This is what led to the identification and submission of the aforementioned applications and is driving the investigation of other potential applications. Delta is constantly looking at ways to increase the fleet reliability and utilisation and we think CVM™ fits right in as an important tool to assist us in this mission."

"Delta Tech Ops has invited SMS personnel (overseen by Trevor Lynch-Staunton) to be on-site to review a high priority future application for CVM™ that affects the entire Delta fleet, as well as multiple other operator fleets. The mandated repetitive inspection interval of this potential application is less onerous for

the wide-body fleet, but for all narrow-body planes, this is going to cause a great deal of pain. Therefore, this is a high value application for Delta and we are looking for CVM™ to help us reduce costly, time consuming and potentially destructive mandated inspections."

"Delta anticipates ordering sensors and related CVM™ equipment from SMS in 2018 to address multiple applications on our global fleet, pending OEM/FAA approval. Our work to date with both the largest OEM's and the regulators is paving the way for this eventuality."

Expected Timing of Delta Revenue

First revenues from CVM™ and related equipment from the Delta programme is therefore anticipated to be realised by late-2018. As David Piotrowski outlined, the timing and path to revenue is determined by the four main steps:

1. Identification of CVM™ applications – **Completed**
2. Formal submission of use cases for CVM™ from Delta to the OEMs – **Completed/In-Process**
3. Lab testing to develop Probability of Detection Curves ("POD") as necessary – **H1-2018**
4. OEM and regulatory approval of submitted applications – **H2-2018**

The timing of final OEM and regulatory approval is an estimate, with updates to be provided as the Company progresses through the process with Delta.

There are outcomes that could see formal approval achieved faster than indicated, but the Company's intention is to give conservative guidance, given the nature of the industry and the groundbreaking technology that CVM™ represents.

In addition to the material point-of-sale revenue that will be realised from CVM™ equipment sales, SMS will also enter into fixed annual technology licensing service agreements ("FATLSA") with the key proprietary application clients (Tier I to Tier III) as envisioned below:

Tier I Operators – US$10-15 million annual revenue per annum*
Tier II Operators – US$ 5-10 million annual revenue per annum*
Tier III Operators – US$ 3-5 million annual revenue per annum*

*Peak pricing after full fleet adoption; final negotiated amounts will vary within indicated range

FATLSA Revenue Adoption Cycle* - Example

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Tier I	$1,250,000*	$2,000,000	$3,250,000	$5,000,000	$7,000,000	$8,500,000	$10,000,000	$12,000,000	$13,500,000	$15,000,000
Tier II	$750,000	$1,250,000	$2,000,000	$3,000,000	$4,500,000	$5,750,000	$7,000,000	$8,000,000	$9,000,000	$10,000,000
Tier III	$375,000	$750,000	$1,250,000	$1,750,000	$2,500,000	$3,000,000	$3,500,000	$4,000,000	$4,500,000	$5,000,000

*FATLSA adoption curve example shows an anticipated approximate scaling of revenues from Tier I, Tier II and Tier III operators.

In summary, the buy-in from OEMs and Regulators, as well as other operators, post the Delta Agreement has materially exceeded Management's expectations. As indicated from the recent meetings conducted between Delta, FAA, a major OEM and Sandia Lab representatives, the industry is creating a clear and expedient path for the adoption of CVM™. This is greatly due to the leadership role assumed by Delta Airlines to get CVM™ approved and installed on their fleet, further highlighting the importance and impact of the commercial agreement in place between SMS and Delta Airlines.

Other industry Progress

Sikorsky Programme:

Sandia Labs (Dennis Roach) and FAA (Paul Swindell) have scheduled a visit in Q1-2018 to Sikorsky to provide a comprehensive presentation on the completed validation testing programme for SHM/CVM™ designed by Sandia/Sikorsky for the Sikorsky fleet. This is an important meeting as it will include representatives from both the engineering and commercial divisions at Sikorsky, marking the completion of the engineering validation studies and the first move towards commercial integration. The plan going forward is to conduct interface with one or more Sikorsky operators to assess their ability to adopt CVM™. Petroleum Helicopters (PHI) is the prime target as they are one of the largest global rotorcraft operators with a fleet of over 300 Sikorsky aircraft. The intention is to also meet in parallel with the Boston FAA ACO to discuss the SHM approval process and specific CVM™ application(s) that Sikorsky is pursuing for commercial use. The validation data and approval process derived from the Delta programme will be instrumental for developing a similar path with the OEM's and regulators in the rotorcraft industry, thereby speeding the path to commercialisation.

Pre-eminent Global Airline Operator Meeting:

The Octus Group has scheduled key meetings with this operator and SMS management for early-March 2018. The operator's fleet consists of over 200 narrow-body aircraft, with a further 150 aircraft on order. In attendance will be a number of the operator's senior representatives, SMS, Sandia Labs, AEM, Testia and Airbus. SMS and Sandia representatives will present applications previously identified by Delta Airlines for their Airbus aircraft and explore possible additional use cases with maintenance, engineering, structures personnel and Board personnel.

ANAC/South American OEM Update:

Dr. Dennis Roach is meeting with a major South American OEM next week, and has provided the following update:

The OEM continues to pursue CVM™ applications with multiple carriers; Azul and Jet Blue look to be the likeliest near-term entry points.

- *Potential drivers for CVM™ technology via Delta and Sky West are also being pursued.*

STRUCTURAL MONITORING SYSTEMS plc

- *Data acquisition continues on the CVM™ installations on aircraft operating in Azul fleet.*
- *Database on successful flight history will be added to our existing performance database which is currently being reviewed by ANAC for official approval as certification data.*
- *Meetings will be held in early February to discuss the next steps on routine CVM™ usage and pilot programmes with operators.*

Tulip Bay Court Case:

Below is a brief statement provided by SMS's attorney, Alan Rumsley, regarding the dispute with Tulip Bay Pty Ltd and Kenneth Davey in relation to the 1999 Technology Agreement:

"SMS has filed an appeal from a decision of the Supreme Court, refusing to set aside an arbitration award of a dispute under the 1999 Technology Agreement, the award was for payment by SMS of $279,386.20 representing prior royalty payments not paid by SMS. Based on the Company's present cash reserves, this amount is considered to be immaterial.

The appeal is being brought by SMS on the basis that there were clear errors in the decision, which relate to the fact that a) only two of the three arbitrators dealt with the matter, and b) the arbitrators relied on material submissions filed late by Tulip Bay and Mr. Davey, without clearly advising SMS that the material would be accepted late and admissible – noting that the material was filed more than 5 weeks later than the final submission deadline date.

"Appeal papers are to be lodged by March 2018, so the appeal will not be heard until late in 2018, and a decision may take 3 months from the hearing date, so an outcome will not be known until late 2018 or possibly early 2019."

Board Changes

William (Will) Rouse joined the SMS board as an Executive Director to oversee the acquisition and continued operations of AEM. Will is a highly experienced senior banker and finance executive with a proven track record of demonstrated success in the private equity space, focused on the acquisition, optimised growth and sale of specialised manufacturing-related businesses.

Mr. Rouse's appointment followed the resignation of Ray Lewis, who stepped down from the SMS board but remains Head of Business Development at AEM for a period of at least one year, to be extended to 2 years as mutually agreed with SMS management.

Results of Annual General Meeting

At the Annual General Meeting of SMS Shareholders held in Sydney on 7 December 2017, all resolutions put to the meeting passed on a show of hands and submitted proxy votes.

ASX ANNOUNCEMENT
ASX: SMN
31st JANUARY 2018

STRUCTURAL MONITORING SYSTEMS plc

Disclaimer

This announcement contains certain forward-looking statements with respect to the financial condition, operations and business of the Group and certain plans and objectives of the management of SMS. Forward-looking statements can be identified by the use of forward-looking terminology, including, without limitation, the terms "believes", "estimates", "anticipates", "expects, "predicts", "intends", "plans", "goals", "targets", "aims", "outlook", "guidance", "forecasts", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts.

Such forward looking statements involve known and unknown risks, uncertainties and other factors which because of their nature may cause the actual results or performance of the Group to be materially different from the results or performance expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the political and economic environment in which the Group will operate in the future, which may not be reasonable, and are not guarantees or predictions of future performance. No representation is made that any of these statements or forecasts will come to pass or that any forecast result will be achieved, or that there is a reasonable basis for any of these statements or forecasts.

Forward-looking statements speak only as at the date of this presentation and to the full extent permitted by law, SMS, and their respective affiliates and related bodies corporate and each of their respective Related Parties and intermediaries disclaim any obligation or undertaking to release any updates or revisions to information to reflect any change in any of the information contained in this presentation (including, but not limited to, any assumptions or expectations set out in the presentation).

Financial Information

Any pro forma and forecast financial information provided in this announcement is for illustrative purposes only and do not represent a forecast or expectation as to the Group's future financial condition and/or performance. This document has been prepared at a time where the review of financial information contained in this presentation has not been completed and accordingly, you should only rely on any forecast or expectation as to the Group's future financial condition and/or performance that is contained in a prospectus or other offering document which may be issued by SMS in connection with any offer of SMS securities.

For further information, please contact:

Simon Hinsley
Investor Relations
P: +61 401 809 653
E: simon@nwrcommunications.com.au

Sam Wright
Company Secretary
P: +61 408 900 277
E; sam@straightlines.net.au
W: www.smsystems.com.au

Mike Reveley
Executive Director

Will Rouse:
Executive Director

Andy Chilcott
Non-Executive Director

Toby Chandler
Chief Executive Officer

+Rule 4.7B

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	**Quarter ended ("current quarter")**
106 307 322	31 December 2017

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	575	575
1.2	Payments for		
	(a) research and development	(18)	(18)
	(b) product manufacturing and operating costs	(282)	(282)
	(c) advertising and marketing		
	(d) leased assets		
	(e) staff costs	(169)	(267)
	(f) administration and corporate costs	(507)	(813)
1.3	Dividends received (see note 3)		
1.4	Interest received	12	18
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid	(4)	(4)
1.7	Government grants and tax incentives		
1.8	Other (GST)	(52)	(57)
1.9	**Net cash from / (used in) operating activities**	**(445)**	**(848)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)	(10,379)	(10,379)
	(c) investments		

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 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**	**(10,379)**	**(10,379)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	13,000	13,000
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	(202)	(202)
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**	**12,798**	**12,798**

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	2,541	2,944
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(445)	(848)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(10,379)	(10,379)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	12,798	12,798

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of quarter**	**4,515**	**4,515**

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	4,605	2,541
5.2	Call deposits		
5.3	Bank overdrafts	(90)	-
5.4	Other (provide details)		
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**4,515**	**2,541**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	47
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

Director's Wages & Salaries

7.	**Payments to related entities of the entity and their associates**	**Current quarter $A'000**
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

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**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.

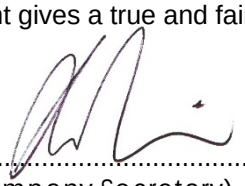
9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Research and development	344
9.2	Product manufacturing and operating costs	2,003
9.3	Advertising and marketing	223
9.4	Leased assets	
9.5	Staff costs	175
9.6	Administration and corporate costs	462
9.7	Other (provide details if material)	
9.8	**Total estimated cash outflows**	**3,207**

10.	**Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)**	**Acquisitions**	**Disposals**
10.1	Name of entity	Anodyne Electronics Manufacturing Corp	
10.2	Place of incorporation or registration	Canada	
10.3	Consideration for acquisition or disposal	CAD$10,623,158 (approx. AUD$10.84m)	
10.4	Total net assets	CAD$6,430,807 (approx. AUD$6.66m)	
10.5	Nature of business	Manufacturer of electronics products	

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: ..... Date: 31 January 2018
(Company Secretary)

Print name: Sam Wright

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.