

STRUCTURAL MONITORING SYSTEMS PLC

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2012

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## CORPORATE DIRECTORY

### Board of Directors

Toby Chandler  
Managing Director

Andrew Chilcott  
Non Executive Director

Michael Reinstein  
Non Executive Director

David Veitch  
Non Executive Director

Michael Reveley  
Non Executive Director

**Company Secretary**  
Sam Wright

**Registered and Corporate Office**  
Suite 7, 29 The Avenue  
Nedlands  
Western Australia 6906

Telephone: +61 8 9204 4844  
Facsimile: +61 8 9204 4866

Email: [sms@smsystems.com.au](mailto:sms@smsystems.com.au)  
Website: [www.smsystems.com.au](http://www.smsystems.com.au)

### Registered Office United Kingdom

4 Elwick Road  
Ashford, Kent TN23 1PF  
United Kingdom

### USA office

421 N Rodeo Drive  
Suite B, Garden Level  
Beverly Hills CA 90210

### 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](http://www.investorcentre.com/contact)

### Statutory Auditors

RSM Tenon Audit Limited  
66 Chiltern Street  
London  
W1U 4JT

### Stock Exchange Listing

Australian Securities Exchange  
Home Exchange: Perth, Western Australia)

### ASX Codes

Shares (CDI's) SMN  
Options SMNOA & SMNOB

### Important Notices

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

# Structural Monitoring Systems PLC

## Directors' Report

Your Directors submit their report for the half-year ended 31 December 2012.

### DIRECTORS

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

- Toby Chandler (Managing Director)
- David Veitch (Non-Executive Director)
- Michael Reveley (Non-Executive Director)
- Andy R. Chilcott (Non-Executive Director)
- Michael Reinstein (Non-Executive Director).

### REVIEW OF OPERATIONS

Structural Monitoring Systems plc ("SMS") continued to make meaningful progress through the half year and achieved further important milestones. The Company continued to develop key relationships with major players in the global aerospace sector and advance CVM™ as a highly regarded technology in the field of non-destructive testing/inspection methods pertaining to Structural Health Monitoring.

Of great importance to SMS's progress in advancing its commercial interest in being one of the world's preeminent leaders in NDT/NDI technologies, SMS secured ongoing and meaningful orders from Boeing, Embraer, Eurocopter and Airbus in the second half of the year. And earlier this year, SMS signed non-disclosure agreements with Delta Air Lines and Hastings Deering (Australia) Ltd.

SMS continues to work closely with several of the largest aircraft OEMs and operators in programmes designed solely to advance SMS's proprietary CVM™ to a commercialised level for use in array of airframe applications. Due to the highly confidential nature of the Agreements in place between SMS and its various partners and advocates, it is unfortunately not possible to provide in-depth discussion of the nature, timeline or likely economic benefit to be derived from such relationships. Over time, as these programmes mature and the Company approaches formal commercial relationships with these partners, SMS will likely be in a position to provide greater detail and clarity.

On our operations front, SMS's relationship with Anodyne Electronics Manufacturing Corp ("AEM"), commenced in the first half of 2012, advanced markedly in the second half of the year. The parties succeeded in their endeavour to seamlessly integrate SMS's manufacturing and technical operations into AEM, allowing SMS to continue providing its commercial partners with uninterrupted service, all the while elevating SMS's capacity to provide its partners with highly technical manufacturing services. Since then, SMS has announced the key terms of the forthcoming Partnership Agreement to be executed by the parties.

SMS has further commenced negotiations with an industry recognized, US-domiciled provider of on-site NDT services with the intention of entering into a partnership whereby this provider will act as SMS's exclusive client interface division, responsible for installation, training and other on-site NDT services. SMS is confident that this relationship - when commenced - will significantly enhance SMS's capability to provide highly specialised and timely on-site services around the globe.

Partly due to the above operational partnerships, SMS has also materially reduced its ongoing baseline monthly "cash burn" to well below levels seen only 12-18 months ago and drastically below levels seen in prior years, when the Company's monthly "static" operational cash requirement hovered around 7-figures. The Company now believes it is close to optimally organised from an operational, geographic and personnel standpoint – and this is reflected in an ongoing monthly baseline cash requirement of well under \$50,000.

Meanwhile, the Company continues to earn valuable revenue from various pre-commercial orders throughout the year – all from pre-eminent aircraft and aerospace-related companies. As of this report's writing, SMS had \$91,455 in accounts receivables from fulfilled orders that will materialise into cash flow in the coming weeks and \$149,438 in outstanding orders that we expect will be filled in next 12 months. This means SMS is gradually and consistently moving towards a fully funded operation, and thus the Company will continue to seek limited, if any, funding requirements over the coming months.

## **Structural Monitoring Systems PLC**

### **Directors' Report (Cont'd)**

#### **ATO RESEARCH & DEVELOPMENT REBATE**

On 5<sup>th</sup> September 2012, SMS announced that the Australian Taxation Office ("ATO") had recognized the innovation of the Research and Development project involving the in-flight structural health monitoring system being developed and tested with Embraer S.A.

SMS had previously lodged an application with Innovation Australia following advice from SMS's consultants that the R&D project may qualify SMS for a Research and Development Tax Rebate on SMS's 2011 tax return.

Following approval from the ATO of SMS's application for a Research and Development rebate, an amount of \$66,727 was deemed refundable on SMS's 2011 Tax Return and a cheque for that amount plus interest has subsequently been received by SMS and banked.

#### **ANNUAL GENERAL MEETING**

On 28<sup>th</sup> November 2012, SMS held its Annual General Meeting of Shareholders at the offices of Skywest Airlines, 510 Thomson Road, #12- 04 SLF Building, Singapore.

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

#### **CHANGE OF REGISTERED OFFICE**

On 2<sup>nd</sup> August 2012, the Company announced that the Registered Office and Principal Place of Business have been relocated Suite 7, 29 The Avenue, Nedlands, Western Australia, providing a further reduction in corporate overhead expenses

#### **CAPITAL RAISING**

On 23<sup>rd</sup> September 2012, SMS raised \$150,000 through the placement of 1,875,000 shares at 8 cents per share along with one free attaching option for every share purchased, exercisable at 14 cents and expiring 1 September 2015, pursuant to Section 708 of the Corporations Act.

The raising was again priced at a premium to the then SMS share price, reflecting the ongoing endorsement of SMS's growth trajectory by one of SMS's most prominent institutional shareholders, and recognition by a new shareholder base of the Company's long-term business strategy.

The placement of shares was partly granted to Drake Private Investments LLC, a prominent New York-based hedge fund that is currently a substantial holder of SMS shares. On 21<sup>st</sup> January 2013, Drake Private Investments LLC lodged a notice of substantial holding advising they hold 9.3% of issued capital in SMS.

#### **BOARD CHANGES**

At SMS's Annual General Meeting held on 28th November 2012, shareholders approved the appointment of Mr Michael Reveley and Mr David Veitch to SMS's Board of Directors.

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.

## Structural Monitoring Systems PLC

### Directors' Report (Cont'd)

Mr Veitch is the President and founder of Anodyne Electronics Manufacturing Corp. AEM Corp designs, manufactures and market its own line of Aviation communication equipment, it also utilizes its expertise in these areas under contract with several OEMs. Before founding AEM Corp, he worked with Northern Airborne Technology Ltd., where his career progressed from manufacturing to Operations Manager, helping NAT Ltd grow from a 10 person shop to a corporation with over 200 employees and \$40M in annual sales.

#### SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

On 11<sup>th</sup> February 2013, the Company announced the key terms of the agreement with Anodyne Electronics Manufacturing Corporation ("AEM") - a highly regarded aircraft OEM supplier and AS9100C certified manufacturer domiciled in British Columbia, Canada.

Under the agreement's terms, AEM will act as SMS's key operational division, bearing the exclusive responsibility for manufacturing, engineering, calibrating and repairing all of SMS' products. AEM will manufacture the entire lineup of SMS products, including prototypes and qualification builds.

In exchange for AEM initiating and continuing the business relationship with SMS, AEM will be granted a 10% equity stake in SMS—specifically, on May 1<sup>st</sup>, 2013, AEM will own 10% of all outstanding Ordinary Fully Paid shares in SMS. This equity stake will be granted in four 2.5% instalments, three of which have already occurred on August 1<sup>st</sup>, 2012, November 1<sup>st</sup>, 2012 and February 1<sup>st</sup>, 2013. On May 1<sup>st</sup>, 2013, AEM will receive the final 2.5% equity grant and any additional shares required to ensure that as of that date it holds 10% of all outstanding Ordinary Fully Paid shares in SMS.

In the interest of advancing the parties' commercial objectives, SMS intends to grant to AEM two seats on SMS's Board of Directors. AEM presently has 1 seat on SMS's Board of Directors and on November 1st, 2013 SMS intends to grant AEM a second seat on SMS's Board of Directors.

By way of background, Anodyne Electronics Manufacturing Corp commenced operations as a fully independent company in the fall of 2009, when Northern Airborne Technology Ltd ("NAT"), now part of Cobham Plc, elected to close manufacturing operations in Canada. This created an opportunity for a 100% employee-owned, vertically integrated company to emerge with an incredible amount of skill, experience and capability.

AEM is a leading designer and manufacturer of aircraft audio systems, intercoms, tactical FM radio systems, illuminated panels & display products, external PA systems, audio amplifiers, audio adapters and remote switch assemblies. In December, 2010, AEM became the sole provider of many of the former NAT products, after completing a licensing agreement with Cobham.

#### AUDITORS INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is included within this half-year financial report.

Signed in accordance with a resolution of the Directors.



Director  
Perth, Western Australia

22 February 2013

**Structural Monitoring Systems PLC**  
**Consolidated Statement of Comprehensive Income**  
**For The Half-Year Ended 31 December 2012**

	Consolidated	
	6 months to 31 Dec 2012	6 months to 31 Dec 2011
	\$	\$
Continuing operations		
<b>Revenue</b>		
Sales	11,234	113,858
Cost of sales	(8,778)	(48,289)
<b>Gross profit</b>	2,456	65,569
Other revenues	70,217	2,169
Administrative and corporate expenses	(354,503)	(539,911)
Depreciation	-	(959)
Occupancy expenses	(10,917)	(34,019)
Research and development expenses	(198,069)	(130,106)
<b>Loss from continuing operations before income tax and finance costs</b>	(490,816)	(637,257)
Finance income	-	-
Finance costs	-	-
<b>Loss after finance costs and tax from continuing operations</b>	(490,816)	(637,257)
<b>Net loss attributable to members of Structural Monitoring Systems Plc</b>	(490,816)	(637,257)
<b>Other comprehensive income</b>		
Foreign currency translations	-	-
<b>Total comprehensive loss for the period</b>	(490,816)	(637,257)
 Basic and diluted loss per share (cents per share)	(0.75)	(0.14)

*The accompanying notes form part of these financial statements*

**Structural Monitoring Systems PLC**  
**Consolidated Statement of Financial Position**  
**As at 31 December 2012**

	<b>Consolidated</b>	
	<b>As at 31 December 2012 \$</b>	<b>As at 30 June 2012 \$</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Other current assets	29,362	10,105
Cash and cash equivalents	127,536	142,427
<b>Total current assets</b>	<u>156,898</u>	<u>152,532</u>
<b>Total assets</b>	<u>156,898</u>	<u>152,532</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Interest bearing liabilities	22,745	-
Trade and other payables	229,164	93,009
<b>Total liabilities</b>	<u>251,909</u>	<u>93,009</u>
<b>NET (LIABILITIES) / ASSETS</b>	<u>(95,011)</u>	<u>59,523</u>
<b>Equity</b>		
Called up share capital	31,698,934	31,668,909
Share premium reserve	13,372,551	13,066,294
Other reserves	(1,699,443)	(1,699,443)
Accumulated losses	(43,467,053)	(42,976,237)
<b>TOTAL (DEFICIENCY IN EQUITY) / EQUITY</b>	<u>(95,011)</u>	<u>59,523</u>

*The accompanying notes form part of these financial statements.*

**Structural Monitoring Systems PLC**  
**Consolidated Statement of Cash Flows**  
**For The Half-Year Ended 31 December 2012**

	Six months to 31 Dec 2012 \$	Consolidated Six months to 31 Dec 2011 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	95,486	188,626
Payments to suppliers and employees	<u>(283,122)</u>	<u>(700,056)</u>
<b>Net cash flows from operating activities</b>	<u>(187,636)</u>	<u>(511,430)</u>
<b>Cash flows from investing activities</b>		
Interest received	-	976
Purchase of plant and equipment	<u>-</u>	<u>(2,108)</u>
<b>Net cash flows from investing activities</b>	<u>-</u>	<u>(1,132)</u>
<b>Net cash flows before financing activities</b>	(187,636)	(512,562)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	150,000	508,500
Payment of share issue costs	-	(771)
Proceed from borrowings	<u>22,745</u>	<u>-</u>
<b>Net cash flows from financing activities</b>	<u>172,745</u>	<u>507,729</u>
<b>Net decrease in cash held</b>	(14,891)	(4,833)
Add opening cash brought forward at 1 July	<u>142,427</u>	<u>590,543</u>
<b>Closing Cash Carried Forward</b>	<u>127,536</u>	<u>585,710</u>

*The accompanying notes form part of these financial statements*

**Structural Monitoring Systems PLC**  
**Consolidated Statement of Changes in Equity**  
**For The Half-Year Ended 31 December 2012**

<b>Consolidated</b>	<b>Issued Capital \$</b>	<b>Accumulated Losses \$</b>	<b>Share Premium Reserve \$</b>	<b>Other Reserves \$</b>	<b>Total Equity \$</b>
<b>At 1 July 2011</b>	<u>31,617,416</u>	<u>(41,709,247)</u>	<u>12,334,669</u>	<u>(1,770,168)</u>	<u>472,670</u>
Loss for the period	-	(637,257)	-	-	(637,257)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	(637,257)	-	-	(637,257)
<b>Transaction with owners in their capacity as owners:</b>					
Issues of shares and options	<u>33,119</u>	<u>-</u>	<u>437,185</u>	<u>70,725</u>	<u>541,029</u>
<b>At 31 December 2011</b>	<u>31,650,535</u>	<u>(42,346,504)</u>	<u>12,771,854</u>	<u>(1,699,443)</u>	<u>376,442</u>
<b>At 1 July 2012</b>	<u>31,668,909</u>	<u>(42,976,237)</u>	<u>13,066,294</u>	<u>(1,699,443)</u>	<u>59,523</u>
Loss for the period	-	(490,816)	-	-	(490,816)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	(490,816)	-	-	(490,816)
<b>Transaction with owners in their capacity as owners:</b>					
Issues of shares	<u>30,025</u>	<u>-</u>	<u>306,257</u>	<u>-</u>	<u>336,282</u>
<b>At 31 December 2012</b>	<u>31,698,934</u>	<u>(43,467,053)</u>	<u>13,372,551</u>	<u>(1,699,443)</u>	<u>(95,011)</u>

*The accompanying notes form part of these financial statements*

# Structural Monitoring Systems PLC

## Notes to the Half-Year Financial Statements 31 December 2012

### 1. Basis of preparation

This general purpose interim financial report for the half-year reporting period ended 31 December 2012 has been prepared in accordance with the requirement of *Corporations Act 2001* and applicable International Accounting Standards, including IAS 134: *Interim Financial Reporting*. The Group is for profit entity for financial reporting purposes under International Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statement of Structural Monitoring Systems PLC and its controlled entities (referred to as the 'consolidated entity' or the 'Group'). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report to be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2012, together with any public announcements made during the following half-year.

The interim financial report has been prepared on an accrual basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The accounting policies have been consistently applied with those of the previous financial year and corresponding interim reporting period.

### New and Revised Accounting Standards and Interpretations

The consolidated entity has adopted all of the new and revised Accounting Standards and Interpretations issued by the International Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the consolidated entity.

### Going Concern

The financial statements have been prepared on a 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, the consolidated entity incurred a loss of \$490,816 and had net cash outflows from operating activities of \$187,636 for the half-year ended 31 December 2012. As at that date, the consolidated entity had net liabilities of \$95,011.

These factors indicate significant uncertainty as to whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its 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 consolidated entity will be able to continue as a going concern, after consideration of the following factors:

- The consolidated entity has the ability to raise capital in accordance with the *Corporation Act 2001*;
- Further commercial exploitation of the company's technologies and products at amounts sufficient to meet proposed expenditure commitments; and
- The consolidated entity has the ability to scale down its operations in order to reduce costs, in the event that any capital raising is delayed or insufficient cash is available, to meet future expenditure commitments.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern 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 consolidated entity does not continue as a going concern.

**Structural Monitoring Systems PLC**  
**Notes to the Half-Year Financial Statements 31 December 2012**

**2. CONTINGENT ASSETS AND LIABILITIES**

Since the last annual reporting date, no contingent assets or contingent liabilities have arisen.

**3. SUBSEQUENT EVENTS**

Since the end of the half-year, there has not been any material events subsequent to the end of the reporting date and the date of this interim financial report that has not been recognised in this financial report

**4. OPERATING SEGMENTS**

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

The Group operates in one segment being Structural Health Monitoring.

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

**5. ISSUED CAPITAL AND RESERVES**

	As at 31 Dec 2012 \$	As at 30 June 2012 \$
<i>Ordinary Shares</i>		
Issued and fully paid	31,698,934	31,668,909
	<i>Shares on Issue</i> (no.)	\$
<i>Movement in ordinary shares in issue</i>		
At 30 June 2012	62,877,288	31,668,909
Issue of shares – Capital raising	1,875,000	9,375
Issued of shares in lieu of fees/ charges	4,130,029	20,650
At 31 December 2012	68,882,317	31,698,934
	As at 31 Dec 2012 \$	As at 30 June 2012 \$
<i>Share Premium Reserve</i>		
Share Premium Reserve	13,372,551	13,066,294
<i>Movement in Share Premium Reserve</i>		
At 30 June 2012	13,066,294	
Issue of shares – Capital raising	140,625	
Issued of shares in lieu of fees/ charges	165,632	
At 31 December 2012	13,372,551	
	As at 31 Dec 2012 \$	As at 30 June 2012 \$
<b>Other Reserves</b>		
Option reserve	571,558	571,558
	<i>Unlisted Options</i> <i>on Issue (no.)</i>	\$
<i>Movement in Option Reserve</i>		
At 30 June 2012 and 31 December 2012	32,677,152	571,558

# Structural Monitoring Systems PLC

## Directors' Declaration

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

- (a) the attached financial statements and notes of the consolidated entity:
  - (i) give a true and fair view of the financial position as at 31 December 2012 and the performance for the half-year ended on that date; and
  - (ii) comply with Accounting Standard IAS 34 "Interim Financial Reporting" and the *Corporations Act 2001*.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Director  
Perth, Western Australia

22 February 2013

**Private and Confidential**  
The Directors  
Structural Monitoring Systems PLC  
Unit 5  
15 Walters Drive  
Osborne Park  
Perth  
Western Australia 6017

RSM Tenon Audit Limited  
68 Chiltern Street, London W1U 4JT  
T: 020 7535 1400 F: 020 7535 1401  
www.rsmtenon.com

Our Ref: MP/HN/5513890

22 February 2013

Dear Sir

#### **AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor the review of Structural Monitoring Systems plc for the half year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

- (a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Structural Monitoring plc and the entities it controlled during the half year.

Yours faithfully

*RSM Tenon Audit Limited.*

RSM Tenon Audit Limited

## **INDEPENDENT AUDITOR'S REVIEW REPORT**

### **TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC**

#### **REPORT ON THE HALF YEAR FINANCIAL REPORT**

We have reviewed the accompanying consolidated half year financial report of Structural Monitoring Systems, plc, which comprises the condensed statement of comprehensive income, the condensed statement of financial position as at 31 December 2012, the condensed statement of changes in equity and the condensed statement of cash flows for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2012 or from time to time during the half year ended on that date.

This report is made solely to the company's directors, as a body, in accordance with section 309 of Division 3 of the Corporations Act 2001. Our review 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 auditors' review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our review work, for this report, or for the conclusion we have formed.

#### **Director's Responsibility for the Half Year Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with the Australian Corporations Act 2001. This responsibility includes designing, implement and maintaining internal control relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The annual financial statements of the group are prepared in accordance with International Reporting Standards as adopted by the European Union. The condensed set of financial statements included in the half year financial report has been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

#### **Auditor's Responsibility**

Our responsibility is to express a conclusion of the half year financial report based on our review.

#### **Scope of Review**

We conducted our review in accordance with International Auditing Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410), in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2012 and its performance for the half year ended on that date; and complying with International Accounting Standard 34 (as adopted by the European Union) and the Corporations Act 2001. As the auditor of Structural Monitoring Systems plc, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Accounting Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Independence**

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

### **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Structural Monitoring Systems plc is not in accordance with the Corporations Act 2001 including:

- (a) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half year ended on that date; and
- (b) Complying with International Accounting Standard 34 and Corporations Regulations 2001.

### **Material Uncertainty Regarding Continuation as a Going Concern**

In arriving at our conclusion on the financial report, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial report concerning the group's ability to continue as a going concern. The consolidated entity incurred a net loss of \$490,816 for the period to 31 December 2012 and, at the date of approval of this half year report, is dependent upon a capital fund raising in the near future, as well as the monthly income and future revenues to be generated from the exclusion strategic partnership agreement with a large international company. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern. The half year report does not include the adjustments that would result if the consolidated entity were unable to continue as a going concern.

RSM Tenon Audit Limited

RSM Tenon Audit Limited

22 February 2013.