



## **APPENDIX 4C - QUARTERLY REPORT AND BRIEF COMPANY UPDATE**

### **During the quarter:**

- Structural Monitoring Systems Ltd ("SMN" or "the Company") is continuing with ongoing negotiations and contractual review related to the ultimate execution of a strategic agreement with a major aerospace organisation. Upon execution, this agreement will work to provide the scale, visibility and commercial path to ultimately securing global licensing/royalty revenues related to the provision and use of CVM™ technology by major aerospace companies. Whilst this agreement was not executed prior to 31 December 2016, as envisaged, the Company remains very positive regarding the current state and maturity of negotiations, and looks forward to visible completion of proceedings, and execution of the agreement.
- SMN remains involved in multiple other programmes and negotiations, as previously highlighted in various communications. The Company will continue to provide relevant and material updates related to all these activities as and when required. The programmes and negotiations involve major aerospace OEMs, defence forces and civil aerospace concerns – involving both fixed-wing and rotor aircraft.
- National Aerospace Laboratory, Netherlands ("NLR"), one of the Company's key industry partners overseeing the Netherlands Air Force Apache attack helicopter CVM™ programme, held a major demonstration workshop on November 3<sup>rd</sup> 2016. Approximately 180 military and global civil aerospace participants were in attendance, where senior NLR personnel demonstrated CVM™ technology.
- SMN is preparing for a near-term re-focusing of the Company's core activities to encapsulate a greater level of new business development, with the aim of realising recurring revenue contracts directly related to the provision and licensing of CVM™ to end-users including, but not limited to, commercial airlines, aerospace OEMs and global defence forces, operating both fixed-wing and rotor aircraft. Additional personnel are expected to be hired in 2017, either as strategic partners or direct SMN staff, to build out and mature the Company's personnel platform. To this end, on 19<sup>th</sup> January 2017 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 commercialization and regulatory approval of CVM™.
- SMS held its Annual General Meeting of Shareholders at RSM Australia, 8 St Georges Terrace, Perth WA 6000 on 28 November 2016 at 9:00am WST. All resolutions that were put were unanimously passed on a show of hands. A recording of the Q&A session is available on the Company's website.
- During the quarter 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 of Western Australia, and as a result, the dispute is not finalised, and is ongoing.

The arbitration relates to a dispute between the Company and Tulip Bay Pty Ltd concerning royalty payments in respect of an agreement (executed in 1999) by which technology rights were fully assigned to SMN. SMN claims it is entitled to repayment of previously paid royalties of approximately \$435,000 after Tulip Bay and a related party breached the agreement. The Company claims this breach gave rise to a right to terminate the agreement, and the recoupment of certain related royalty payments previously paid by the Company.

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Tulip Bay counter-claimed for royalty payments owed and not paid by SMN and the arbitrators have ruled in favour of Tulip Bay and a related party in the sum of approximately \$280,000 including costs and interest.

The dispute is in no way related to any technology asset of the Company and is not material to the operations of the Company. Further, as the dispute is the subject of legal proceedings which are not completed, the Company does not intend to make any further disclosure related to the dispute until its finalisation.

- As often stated in previous communications, the Company does not expect any foreseeable need to issue any further shares at any time in the future.
- The Company continues to meet all necessary expenditure needs and is, per usual, operating with demonstrable financial constraint and responsibility. The Company's key operational and strategic liquidity/working capital objectives remain well-defined and visible.
- The Company's cash balance as at 31<sup>st</sup> December, 2016 was approximately \$3.6m, and sees SMN fully funded relative to its foreseeable total cash flow requirements for the 2016/17 fiscal year, and well beyond. As per usual, CVM™ equipment/peripheral sales are being frequently secured, and expected, and these sales will further bolster the Company's cash balance, as will expected CVM™-related licencing etc. agreements with major counterparties.

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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")**

December 2016

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
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	(64)	(78)
(f) administration and corporate costs	(164)	(309)
1.3 Dividends received (see note 3)		
1.4 Interest received	16	35
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)	(1)	(5)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(213)</b>	<b>(357)</b>

<b>2. Cash flows from investing activities</b>		
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 (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)		
<b>2.6 Net cash from / (used in) investing activities</b>	-	-

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares		
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options	104	454
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)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>104</b>	<b>454</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,666	3,460
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(219)	(357)
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)	104	454

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	6	5
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>3,562</b>	<b>3,562</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	1,062	1,166
5.2	Call deposits	2,500	2,500
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>3,562</b>	<b>3,666</b>

**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

<b>Current quarter \$A'000</b>
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55
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Director's Wages & Salaries
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**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

<b>Current quarter \$A'000</b>
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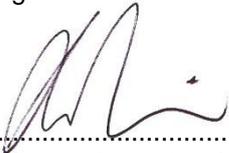
8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities		
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description 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. <b>Estimated cash outflows for next quarter</b>	\$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	40
9.6 Administration and corporate costs	160
9.7 Other (provide details if material)	
<b>9.8 Total estimated cash outflows</b>	<b>200</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	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 January 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.