

#### Appendix 4D

#### Half-Year Report for the period ended 31 December 2017

#### Results for announcement to the Market

#### Financial Performance

Structural Monitoring Systems Plc - Consolidated			
(AUD'000)	Half-year ended 31 Dec 2017	Half-year ended 31 Dec 2016	Movement %
Revenue	455	303	50%
(Loss) before tax attributable to members	(2,791)	(399)	599%
(Loss) after tax attributable to members	(2,760)	(399)	592%

#### Review of Operations

Refer to Directors' Report included in the attached half-year period under review.

#### Dividends

No Dividends were paid or declared for payment during the half-year period under review.

#### Earnings Per Share

	Half-year ended 31 Dec 2017	Half-year ended 31 Dec 2016
(Loss) per share (basic & diluted)	(2.62 cents)	(0.39 cents)

#### Net Tangible Asset Backing

	Half-year ended 31 Dec 2017	Half-year ended 31 Dec 2016
Net tangible asset backing	8.84 cents	3.33 cents

### **Entities Acquired and Disposed During the Period**

On 8 December 2017 Structural Monitoring Systems Plc acquired 100% of the issued shares of Anodyne Electronics Manufacturing Corp (AEM), a company incorporated in Canada, through its wholly owned subsidiary Structural Monitoring System Canada Corporation.

The total cost of the acquisition was \$10,353,560 cash (CAD\$10,000,000) and a working capital adjustment of \$645,190 (CAD\$623,158). For further details refer to Note 13: Business combination in the attached financial statements.

AEM contributed to the financial performance of the Group as follows:

Half-year ended 31 December 2017	\$
Revenue	451,432
(Loss) before tax attributable to members	(126,681)
(Loss) after tax attributable to members	(93,784)

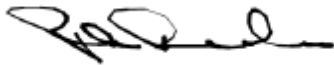
There were no other entities acquired or disposed of during the period.

### **Compliance Statement**

The report is based on financial statements reviewed by the auditor, copies of which are attached.

Signed in accordance with a resolution of Directors.

On behalf of the Directors



Robert Michael Reveley  
Executive Director

Dated: 28 February 2017



# **STRUCTURAL MONITORING SYSTEMS PLC**

## **HALF-YEAR FINANCIAL REPORT**

**31 DECEMBER 2017**

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## CORPORATE DIRECTORY

### Board of Directors

Michael Reveley  
Executive Director

William Rouse  
Executive Director

Andrew Chilcott  
Non-Executive Director

**Chief Executive Officer**  
Toby Chandler

**Company Secretary**  
Sam Wright

**Registered and Corporate Office**  
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Western Australia 6010

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### USA office

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Century City CA 90067

### Canada office

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

### Stock Exchange Listing

Australian Securities Exchange  
Home Exchange: Perth, Western Australia

### ASX Code

Shares (CDI's) SMN

## 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 2017.

### 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.

- Michael Reveley                      Executive Director
- William Rouse                        Executive Director, appointed 8 November 2017
- Andrew R. Chilcott                  Non-Executive Director
- Ray Lewis                              Non-Executive Director, resigned 8 November 2017

### REVIEW OF OPERATIONS

A major highlight of the half-year period for Structural Monitoring Systems plc ("SMS" or "the Company") was the announcement of a critical strategic commercial relationship with Delta Airlines ("Delta") through the execution of an Aircraft Component Purchase ("ACP") Agreement. The Agreement was the world's first commercial agreement related to the supply and permitted use of a structural health monitoring ("SHM") technology with a commercial airline operator.

Key commercial terms of the agreement included:

- Delta partnering 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. These initial threshold sales of CVM™ equipment to Delta are expected to generate about US\$6-7 million in revenue for SMS within the next 2 years

SMS expects this adoption and fleet-wide installation of CVM™ technology by a major global carrier will lead the global commercial aviation sector to full, widespread use of CVM™ products, and material revenue growth across its platform of products to be generated through this agreement.

Delta progressed the introduction of CVM™ in January, meeting with representatives from the US Federal Aviation Administration (FAA) and North America's largest original equipment manufacturers (OEMs) to discuss its adoption, and these representatives agreed to progress CVM™ approvals once supporting documents are presented.

Delta submitted the necessary documentation to formalise changes in aircraft maintenance practices to include the use of CVM™ sensors to monitor hotspot applications for metal fatigue and cracking, Delta has identified and formally submitted multiple applications for CVM™ for approval on its fleet. Based on these submissions and current progression, SMS expects to generate first commercial revenues via Delta's adoption of the technology by late-2018.

The strategic agreement with Delta was followed by SMS' acquisition of Anodyne Electronics Manufacturing Corporation ("AEM") for CAD\$10.6 million in December 2017.

## Structural Monitoring Systems PLC

### Directors' Report (cont'd)

#### REVIEW OF OPERATIONS (CONT'D)

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 sees SMS transform from an R&D-focused "IP silo" company to one making commercial transactions with some of the world's pre-eminent aerospace companies, as it aims to grow the integration of its CVM™ technology in the global aerospace industry.

SMS acquired 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 through the acquisition, able to meet the demands and requirements of large aerospace customers.

AEM earned approx. CAD\$13.2 million in revenue and CAD\$1.8 million in normalised EBITDA in the year ended 30 September 2017. The Company's historical revenue and EBITDA consistency benefits from a key relationship with Cobham Plc, and adjustment of its sales mix towards increasingly AEM-branded, higher value product lines. It also has established relationships with OEMs and suppliers as well as a global network of aircraft and component dealers, which hold substantial value.

SMS undertook a \$13 million share placement to fund the transaction, as well as to maintain a strong liquidity position and near-optimal level of strategic cash reserves.

SMS also progressed other activities during the half-year period, including:

- **Sikorsky Program:** SMS representatives will provide a presentation to Sikorsky on the completed validation testing program for SHM/CVM™ for the Sikorsky fleet during the 3Q18 and SMS expects to assess Sikorsky's ability to adopt the technology, with Petroleum Helicopters (PHI) identified as a prime target customer, with a fleet of more than 300 Sikorsky aircraft.
- **Meeting with global airline operator:** SMS management will meet with a global airline operator in March 2018. The operator has more than 200 narrow-body aircraft, with a further 150 on order.
- **ANAC/South American OEM meeting:** Dr Dennis Roach met with this OEM in January 2018, which continues to pursue CVM™ applications with carriers including Azul and Jet Blue.

No revenue was recognised for these other activities during the half-year period,

#### *Board Changes*

William (Will) Rouse joined the SMS board as an Executive Director to oversee the acquisition and continued operations of AEM. 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 at least one year, with possible extension.

## **Structural Monitoring Systems PLC**

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

#### **REVIEW OF OPERATIONS (CONT'D)**

##### *Operating Results*

The Group incurred an after-tax loss for the half-year ended 31 December 2017 of \$2,759,572 (2016: \$398,538). The loss was attributable to the funding of commercialisation of CVM™ technology, pursuing the Delta programme, the acquisition of AEM and the costs associated with operating an ASX listed company in Australia.

Following acquisition AEM contributed to the performance of the Group revenue of \$451,432 and losses after tax attributable to members of \$93,784 for the current period.

During the half-year the Company issued shares and Performance Rights to Directors, staff and consultants. The share-based payment expense recognised for the half-year was \$1,507,185 (2016: nil). Full details of the share-based payments are disclosed in Note 5: Share-based payments in the notes to the condensed consolidated financial statements.

As at 31 December 2017, SMS held cash at bank of approximately \$4.5 million.


##### **Annual General Meeting**

SMS held its Annual General Meeting of Shareholders at Holding Redlich, Level 65, 19-29 Martin Place, Sydney on 7 December 2017 at 3.45pm ADST. All resolutions that were put were unanimously passed on a show of hands.

##### **SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE**

From the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

Signed in accordance with a resolution of the Directors.



Michael Reveley

Executive Director

Perth, Western Australia

28 February 2018

**Structural Monitoring Systems PLC**  
**Condensed Consolidated Statement of Comprehensive Income**  
**For the Half-Year Ended 31 December 2017**

		<b>6 months to 31 Dec 2017 (unaudited)</b>	<b>6 months to 31 Dec 2016 (unaudited)</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
Continuing operations			
Revenue		455,423	302,705
Cost of sales		<u>(345,134)</u>	<u>(182,385)</u>
<b>Gross profit</b>		110,289	120,321
Other income		144,383	158,432
Depreciation		(19,690)	-
Administrative and corporate expenses		(1,439,172)	(677,989)
Occupancy expenses		(2,883)	(15,932)
Research and development expenses		(37,952)	(29,043)
Share-based payments	5	<u>(1,507,185)</u>	<u>-</u>
<b>(Loss) from continuing operations before income tax and finance costs</b>		(2,752,210)	(444,212)
Finance income		219	35,210
Finance costs		(492)	-
Income tax benefit		31,897	-
Foreign currency translations		<u>(38,986)</u>	<u>10,464</u>
<b>(Loss) after finance costs and tax from continuing operations</b>		(2,759,572)	(398,538)
<b>Net (loss) attributable to members of Structural Monitoring Systems Plc</b>		(2,759,572)	(398,538)
<b>Other comprehensive expense</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(173,277)</u>	<u>-</u>
Other comprehensive expense		<u>(173,277)</u>	<u>-</u>
<b>Total comprehensive (loss) for the period</b>		<u>(2,932,849)</u>	<u>(398,538)</u>
Basic and diluted loss per share (cents per share)		(2.62)	(0.39)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.



**Structural Monitoring Systems PLC**  
**Condensed Consolidated Statement of Financial Position**  
**As at 31 December 2017**

		<b>As at 31 December 2017 (Unaudited)</b>	<b>As at 30 June 2017 (Audited)</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,494,713	2,943,623
Trade and other receivables	6	3,007,669	24,150
Inventory	7	3,955,889	-
<b>Total current assets</b>		<u>11,458,271</u>	<u>2,967,773</u>
<b>Non-current assets</b>			
Plant & equipment		422,767	-
Intangible assets and goodwill	8	4,046,479	-
<b>Total Non-current assets</b>		<u>4,469,246</u>	<u>-</u>
<b>Total assets</b>		<u>15,927,517</u>	<u>2,967,773</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	1,787,200	334,846
<b>Total current liabilities</b>		<u>1,787,200</u>	<u>334,846</u>
<b>Total liabilities</b>		<u>1,787,200</u>	<u>334,846</u>
<b>NET ASSETS</b>		<u>14,140,317</u>	<u>2,632,927</u>
<b>Equity</b>			
Issued capital	10	31,925,361	31,867,455
Share premium reserve	11	34,904,030	22,069,759
Other reserves	11	(2,057,816)	(2,271,001)
Accumulated losses		<u>(50,631,258)</u>	<u>(49,033,286)</u>
<b>TOTAL EQUITY ATTRIBUTABLE TO MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC</b>		<u>14,140,317</u>	<u>2,632,927</u>

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

**Structural Monitoring Systems PLC**  
**Condensed Consolidated Statement of Cash Flows**  
**For the Half-Year Ended 31 December 2017**

	<b>6 months to 31 Dec 2017 (Unaudited)</b>	<b>6 months to 31 Dec 2016 (Unaudited)</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	721,208	299,679
Payments to suppliers and employees	(1,617,290)	(681,347)
Interest income	219	35,210
Interest expense	(492)	-
<b>Net cash flows used in operating activities</b>	<b>(896,355)</b>	<b>(346,458)</b>
<b>Cash flows from investing activities</b>		
Net cash paid on acquisition of subsidiary	(10,353,560)	-
<b>Net cash flows used in investing activities</b>	<b>(10,353,560)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	13,000,000	453,764
Costs of issue	(201,625)	-
<b>Net cash flows from financing activities</b>	<b>12,798,375</b>	<b>453,764</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,548,460</b>	<b>107,306</b>
Cash and cash equivalents at beginning of period	2,943,623	3,460,397
Effect of foreign exchange on balances	2,630	-
<b>Cash and cash equivalents at end of period</b>	<b>4,494,713</b>	<b>3,567,703</b>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Structural Monitoring Systems PLC

## Condensed Consolidated Statement of Changes in Equity attributable to members of Structural Monitoring Systems PLC

For the Half-Year Ended 31 December 2017

	Issued Capital \$	Accumulated Losses \$	Share Premium Reserve \$	Share-Based Payment Reserve \$	Foreign Exchange Reserve \$	Total Equity \$
<b>Consolidated</b>						
<b>At 1 July 2016</b>	31,863,592	(48,225,326)	21,351,677	571,558	(2,271,001)	3,290,500
Loss for the period	-	(398,538)	-	-	-	(398,538)
Other comprehensive income/(expense)	-	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	(398,538)	-	-	-	(398,538)
<b>Transaction with owners in their capacity as owners:</b>						
Issues of shares	3,191	-	519,424	-	-	522,615
<b>At 31 December 2016</b>	31,866,783	(48,623,864)	21,871,101	571,558	(2,271,001)	3,414,577
<b>At 1 July 2017</b>	31,867,455	(49,033,286)	22,069,759	-	(2,271,001)	2,632,927
Loss for the period	-	(2,759,572)	-	-	-	(2,759,572)
Other comprehensive income/(expense)	-	-	-	-	(173,277)	(173,277)
<b>Total comprehensive loss for the period</b>	-	(2,759,572)	-	-	(173,277)	(2,932,849)
<b>Transaction with owners in their capacity as owners:</b>						
Issue of shares and performance rights	5,906	1,161,600	387,896	3,680	-	1,559,082
Grant of shares and performance rights	-	-	-	382,782	-	382,782
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(501,625)	-	-	(501,625)
<b>At 31 December 2017</b>	31,925,361	(50,631,258)	34,904,030	386,462	(2,444,278)	14,140,317

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 1. GENERAL INFORMATION

Structural Monitoring Systems Plc is a public company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose shares are publicly traded on the Australian Securities Exchange. The address of the registered office is 4 Elwick Road, Ashford, Kent TN23 1PF, United Kingdom.

The interim financial report of the Company as at and for the six months ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the "Group"). The Group's principal activity was the development and commercialisation of its intellectual property for products used in testing and monitoring the structural integrity of materials that are subject to operational stress and fatigue in structures such as aircraft, ships, transportation infrastructure and power plants.

These condensed consolidated financial statements are presented in Australian Dollars (AUD\$) because the Group operates in international markets and the AUD\$ provides the most comparable currency for the peer companies.

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union. The accounting policies are consistent with those set out and applied in the statutory accounts of the Group for the period ended 30th June 2017, which were prepared in accordance with IFRSs as adopted by the European Union

This condensed consolidated 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. 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 2017, together with any public announcements made during the following half-year.

The interim financial information for the period from 1 July 2017 to 31 December 2017 is unaudited. In the opinion of the Directors the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The financial information incorporates comparative figures for the interim period from 1 July 2016 to 31 December 2016 and the audited financial year to 30 June 2017.

The financial information contained in this interim report does not constitute statutory accounts as defined by section 434 of the Companies Act 2006.

The comparatives for the full year ended 30 June 2017 have been extracted from the Group's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

The interim financial report was authorised for issue in accordance with resolution of the directors on 28<sup>th</sup> February 2018.

The interim financial report has been prepared on an accruals basis and is based on historical costs.

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

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 2. BASIS OF PREPARATION (CONT'D)

#### Intangible assets and impairment

Goodwill is the difference between the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised, instead goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For impairment testing purposes the Group identifies its cash generating units (CGUs), which are the smallest identifiable groups of assets that generate cash inflows largely independent of cash inflows of other assets or other groups of assets. Each of those cash generating units represents the Group's investment in each region of operation.

#### Inventory

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### *Changes in accounting policies*

There were no new standards or amendments applicable to the Group issued during the current period.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### *Significant accounting estimates*

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the consolidated financial statements the significant estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2017, with the exception of the following:

i) *Share-based payment transaction:*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Black-Scholes or binomial pricing models, using the assumptions detailed in Note 5.

ii) *Acquisition of Anodyne Electronics Manufacturing (AEM)*

Key estimates are applied in the acquisition accounting including the provisional fair value of the assets and liabilities acquired, and the fair value of the consideration paid. The acquisition was determined by the directors to be a business combination as detailed in Note 13.

## **Structural Monitoring Systems PLC**

### **Notes to the Half-Year Condensed Consolidated Financial Statements**

**31 December 2017**

#### **2. BASIS OF PREPARATION (CONT'D)**

##### **Going Concern**

The condensed consolidated 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 Group incurred a loss of \$2,759,572 and had net cash outflows from operating activities of \$896,355 for the half-year ended 31 December 2017.

The Directors believe that it is reasonably foreseeable that the Group will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of these financial statements after consideration of the following factors:

- 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.

#### **3. SUBSEQUENT EVENTS**

From the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 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.

	Australia	US/Canada	UK	Total
	\$	\$	\$	\$
<b>Half-year ended 31 December 2016</b>				
<b>Revenue</b>				
Sales to external customers	-	302,705	-	302,705
Revenue from continuing operations	-	302,705	-	302,705
Segment revenue	-	302,705	-	302,705
<b>Sales revenue by customer location:</b>				
Americas	-	302,705	-	302,705
Total Revenue	-	302,705	-	302,705
<b>Result</b>				
Segment result				
Other revenue	-	158,432	-	158,432
Unallocated expenses	-	-	-	-
Loss before tax	46,646	(126,054)	(160,698)	(398,538)
Income tax benefit/(expense)	-	-	-	-
(Loss) for the period	(111,786)	(126,054)	(160,698)	(398,538)
<b>Assets and liabilities</b>				
Segment assets	2,967,773	-	-	2,967,773
Segment liabilities	242,156	88,447	4,243	334,846
<b>Included within segment results:</b>				
Financial income	35,210	-	-	35,210

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 4. OPERATING SEGMENTS (CONT'D)

	Australia	US/Canada	UK	Total
	\$	\$	\$	\$
<b>Half-year ended 31 December 2017</b>				
<b>Revenue</b>				
Sales to external customers	-	455,423	-	455,423
Revenue from continuing operations	-	455,423	-	455,423
Segment revenue	-	455,423	-	455,423
<b>Sales revenue by customer location:</b>				
Americas	-	455,423	-	455,423
Total Revenue	-	455,423	-	455,423
<b>Result</b>				
Segment result				
Other revenue	-	144,383	-	144,383
Unallocated expenses	-	-	-	-
Loss before tax	(927,158)	(1,717,970)	(146,341)	(2,791,469)
Income tax benefit/(expense)	-	31,897	-	31,897
(Loss) for the period	(927,158)	(1,686,073)	(146,341)	(2,759,572)
<b>Assets and liabilities</b>				
Segment assets	4,436,320	11,461,197	30,000	15,927,517
Segment liabilities	377,106	1,398,882	11,212	1,787,200
<b>Included within segment results:</b>				
Depreciation	-	(19,690)	-	(19,690)
Financial income	219	-	-	219
Financial expense	-	(492)	-	(492)



# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 5. SHARE-BASED PAYMENT EXPENSE

	6 months to 31 December 2017 \$	6 months to 31 December 2016 \$
Issue of Performance Rights to Directors	337,405	-
Issue of Performance Rights to CEO	576,980	-
Issue of shares to Consultants	445,900	-
Issue of shares to Director	146,900	-
	<b>1,507,185</b>	<b>-</b>

#### *Performance Rights - Directors*

On 7 December 2017 shareholders approved the issue of 1,725,000 Performance Rights (PRs) (and the issue of shares following the vesting of those Performance Rights) to Directors.

Tranche 1 Rights do not have any vesting conditions or share price barriers. Consequently the Tranche 1 Rights were issued as CDIs on the issue date. Tranches 2 to 7 vest based on the attainment of share price barriers within 3 years of grant date.

The following Director PRs were issued during the period:

Directors	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Total
Robert Reveley	200,000	200,000	200,000	100,000	25,000	25,000	50,000	800,000
Andrew Chilcott	-	200,000	25,000	25,000	25,000	25,000	-	300,000
William Rouse	-	400,000	50,000	50,000	25,000	50,000	50,000	625,000
Totals	200,000	800,000	275,000	175,000	75,000	100,000	100,000	1,725,000

Fair value at grant date (\$)	293,800	1,077,600	342,100	201,250	83,025	106,600	102,800	2,207,175
Expense recognised in current period (\$)	293,800	24,558	7,796	4,586	1,892	2,430	2,343	337,405

The inputs to the valuation of Director PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier (\$)	-	2.00	2.50	3.00	3.25	3.50	3.75
Grant date	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17
Performance period (years)	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Volatility (%)	75	75	75	75	75	75	75
Risk free rate (%)	1.93	1.93	1.93	1.93	1.93	1.93	1.93
Dividend yield	-	-	-	-	-	-	-

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 5. SHARE-BASED PAYMENT EXPENSE (CONT'D)

Note 1: 100,000 of the Tranche 2 Rights granted to Andrew Chilcott and 200,000 of the Tranche 2 Rights granted to William Rouse, in addition to achieving the share price barrier, have an additional time-based hurdle of 12 months from grant date.

#### *Performance Rights - CEO*

On 29 December 2017 the Board granted the issue of the following Performance Rights to Toby Chandler (CEO) under the Company Employee Incentive Plan:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Total
Toby Chandler (CEO) PRs	450,000	450,000	400,000	150,000	150,000	125,000	125,000	1,850,000
Fair value at grant date (\$)	573,300	485,550	391,200	136,950	129,300	103,375	99,375	1,919,050
Expense recognised in current period (\$)	573,300	1,328	1,070	374	353	283	272	576,980

Tranche 1 Rights do not have any vesting conditions or share price barriers. Consequently the Tranche 1 Rights were issued as CDIs on the issue date. Tranches 2 to 7 vest based on the attainment of share price barriers within 3 years of grant date.

The inputs to the valuation of CEO PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier (\$)	-	2.20	2.75	3.15	3.50	3.75	4.00
Grant date	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17
Performance period (years)	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Volatility (%)	75	75	75	75	75	75	75
Risk free rate (%)	2.13	2.13	2.13	2.13	2.13	2.13	2.13
Dividend yield	-	-	-	-	-	-	-

Black-Scholes and binomial pricing models were used in the valuations of performance shares and performance rights issued during the period.

#### *Shares issued to consultants*

On 29 December 2017 the Board granted the issue of 350,000 shares to consultants under the Company Employee Incentive Plan.

The expense recognised during the current period for the issue is \$445,900. The total fair value was determined by the share price on the grant date.

#### *Shares issued to director for services provided*

On 7 December 2017 shareholders approved the issue of 100,000 shares to a William Rouse for services provided in the acquisition of AEM.

The expense recognised in the current period is \$146,900. The total fair value was determined by the share price on the grant date.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 5. SHARE-BASED PAYMENT EXPENSE (CONT'D)

#### *Shares issued in lieu of fees owing*

During the period shares issued in lieu of fees owing to Michael Reveley and Toby Chandler of \$250,262 for services provided per their respective employment agreement were satisfied through the issue of shares with a value at grant date of \$105,879. The gain on forgiveness of fees owing of \$144,383 has been recognised in the Statement of Comprehensive Income as Other Income.

### 6. TRADE AND OTHER RECEIVABLES

	As at 31 December 2017 \$	As at 30 June 2017 \$
Trade receivables	2,645,897	9,497
Other receivables	172,429	10,486
Prepayments	189,343	4,167
	<u>3,007,669</u>	<u>24,150</u>

AEM was acquired on 8 December 2017. AEM trade receivables at the date of acquisition were \$2,941,681. AEM prepayments and other receivables at the date of acquisition were \$264,622. Refer to Note 13: Business Combination for details of the acquisition.

### 7. INVENTORY

	As at 31 December 2017 \$	As at 30 June 2017 \$
Inventory	3,955,889	-
	<u>3,955,889</u>	<u>-</u>

AEM was acquired on 8 December 2017. AEM inventory at the date of acquisition was \$3,816,867. Refer to Note 13: Business Combination for details of the acquisition.

### 8. INTANGIBLE ASSETS AND GOODWILL

	As at 31 December 2017 \$	As at 30 June 2017 \$
<i>Intangible assets</i>		
Licences – acquired through business combinations	159,280	-
Amortisation of licences	(5,617)	-
Foreign currency differences	(2,536)	-
	<u>151,527</u>	<u>-</u>
<i>Goodwill</i>		
Goodwill – acquired through business combinations	3,952,122	-
Foreign currency differences	(57,170)	-
	<u>3,894,952</u>	<u>-</u>
	<u>4,046,479</u>	<u>-</u>

AEM licences at the date of acquisition were \$159,280. Provisional goodwill at the date of acquisition was \$3,952,122. The movement between the date of acquisition and the balance date is due to a movement in the Australian dollar/Canadian dollar spot rate. Refer to Note 13: Business Combination for details of the acquisition.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 9. TRADE AND OTHER PAYABLES

	As at 31 December 2017 \$	As at 30 June 2017 \$
Trade payables	418,982	50,323
Amount owing to vendors from acquisition of AEM	635,858	-
Other payables	732,360	284,523
	<b>1,787,200</b>	<b>334,846</b>

AEM trade and other payables at the date of acquisition were \$579,987 (comprising trade payables and income tax payable). Refer to Note 13: Business Combination for details of the acquisition.

### 10. ISSUED CAPITAL

	As at 31 December 2017 \$	As at 30 June 2017 \$
<b>Ordinary Shares</b>		
Issued and fully paid	31,925,361	31,867,455
	<i>Shares on Issue (no.)</i>	<i>\$</i>
<i>Movement in ordinary shares in issue</i>		
At 30 June 2017	102,586,569	31,867,455
Placement	10,400,000	52,000
In lieu of cash for capital raising fee	240,000	1,200
Issued to Director	100,000	500
Issued to CEO – in lieu of directors' fees	41,186	206
Issued to CEO – employee incentive plan	450,000	2,250
Issued to consultants	350,000	1,750
At 31 December 2017	<b>114,167,755</b>	<b>31,925,361</b>

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 11. RESERVES

	As at 31 December 2017	As at 30 June 2017
<b>Share Premium Reserve</b>	\$	\$
Share Premium Reserve	34,904,030	22,069,759
	<i>Shares on Issue</i>	
	<i>(no.)</i>	<i>\$</i>
Movement in Share Premium Reserve		
At 30 June 2017	102,586,569	22,069,759
Placement	10,400,000	12,948,000
In lieu of cash for capital raising fee	240,000	327,600
Issued to Director*	100,000	-
Issued to CEO – in lieu of directors' fees	41,186	60,296
Issued to CEO – employee incentive plan*	450,000	-
Issued to consultants*	350,000	-
Issue costs		(501,625)
At 31 December 2017	114,167,755	34,904,030

\*share expense recognised directly in accumulated losses on issue of shares.

	As at 31 Dec 2017	As at 30 June 2017
<b>Other Reserves</b>	\$	\$
Share-based payment reserve	386,462	-
Foreign currency translation reserve	(2,444,278)	(2,271,001)
	(2,057,816)	(2,271,000)

On 7 December 2017 shareholders approved the issue of 1,725,000 Performance Rights to directors as part of their remuneration. The expense recognised for the period is \$337,405 (2016: \$nil). For further details refer to Note 5: Share-based payments.

On 29 December 2017 the Board granted the issue of 1,850,000 Performance Rights to the CEO as part of his remuneration. The expense recognised for the period is \$576,980 (2016: \$nil). The Tranche 1 Rights do not have any vesting conditions or share price barriers. Consequently the Tranche 1 Rights were issued as CDIs on the issue date for \$573,300. The expense recognised for the remaining tranches of \$3,680 was recorded to the share-based payment reserve. For further details refer to Note 5: Share-based payments.

On 7 December 2017 shareholders approved the issue of 30,890 shares to a director in lieu of directors' fees of \$45,377 accrued through 31 December 2017. The shares were granted at balance sheet date but not issued until 5 January 2018.

### 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 \$0.005 (31 December 2016: \$0.005). Costs of the issues are written off against the reserve.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 11. RESERVES (CONT'D)

Share-based payment reserve

The share-based payment reserve is used to record the value of share-based payments made to employees and directors as part of their remuneration.

*Foreign currency translation reserve*

The foreign currency translation reserve (FCTR) is used to record exchange differences arising from the translation of the financial statements of the Group from Canadian dollars to Australian dollars. The movement is recorded under other comprehensive income/(expense) in the statement of comprehensive income.

### 12. FINANCIAL RISK MANAGEMENT

#### a) 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.

#### b) Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2017	Carrying amount	Contractual cash flows	6 months or less
	\$	\$	
Trade and other payables	(1,787,200)	(1,787,200)	(1,787,200)
	(1,787,200)	(1,787,200)	(1,787,200)
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)

#### c) 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 CAD, the EUR and the GBP. The currencies in which these transactions primarily are denominated are AUD, CAD and USD.

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

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

### 13. BUSINESS COMBINATION

#### Acquisition

On 8 December 2017 Structural Monitoring Systems Plc acquired 100% of the issued shares of AEM, a company incorporated in Canada, through its wholly owned subsidiary Structural Monitoring System Canada Corporation, an entity incorporated during the current period.

AEM is a leading designer and manufacturer of 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. In addition, AEM provides prototyping services, outsourced production facilities and electronic assembling.

AEM also provides comprehensive electronics manufacturing services for emerging companies and companies with emerging products. This includes providing solutions for the unique challenges of lower volume, high-mix product configurations and accelerating time to market.

The total cost of the acquisition was \$10,353,560 cash (CAD\$10,000,000), \$776,517 (CAD\$750,000) of which is to be held in escrow for a period of 18 months following settlement) and a working capital adjustment of \$645,190 (CAD\$623,158).

The acquisition enables the Company to shift its focus from being a pure research and development focused entity to a company with a focus on broad technology development and manufacturing. The acquisition of AEM provides a “turn-key platform” for vertical manufacturing integration into the Company. Rather than having to build a manufacturing platform, the Company has acquired the proven platform built by AEM thereby allowing the Company to focus its attention on the commercialisation of its technology.

AEM and its existing operations also provide for a diversified revenue offering which is largely contracted and stable. AEM also offers 90+ professional staff for a fully integrate-able business, with the ability to consolidate back office processes.

#### Consideration transferred

Acquisition date fair value of the consideration transferred

	\$
Cash paid on settlement	10,353,560
Working capital adjustment owing from acquisition (i)	645,190
Total consideration	<u>10,998,750</u>

- (i) Calculated as being the difference between net working capital on acquisition and the agreed target net working capital of CAD\$5.6 million at settlement.

Other acquisition costs incurred to the reporting date amounting to \$406,370 have been expensed.

## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

#### 13. BUSINESS COMBINATION (CONT'D)

##### Assets acquired, and liabilities assumed at the date of acquisition

	Fair value \$
Trade receivables	2,941,681
Inventory	3,816,867
Prepayments and other receivables	264,622
Property, plant and equipment	444,165
Intangible asset	159,280
Trade and other payables	(579,987)
Fair value of identifiable net assets acquired	<u>7,046,628</u>
Provisional goodwill	3,952,122
Total consideration	<u>10,998,750</u>

The Company has been unable to complete the initial accounting for the business combination by the end of the reporting period, therefore provisional accounting has been used.

During this measurement period, to the 30 June 2018 reporting date, the Company retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

After the measurement period ends, the Company will make adjustments to correct errors in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*.

##### Post-acquisition results

Post-acquisition AEM revenue to 31 December 2017 was \$451,432 and the loss after tax attributable to members for the period was \$93,784.



## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2017

#### 14. COMMITMENTS AND CONTINGENCIES

Following the decision of the Supreme Court of Western Australia to not set aside the arbitral award made in January 2017 which determined that the Company was liable to Tulip Bay Pty Ltd for royalty payments, the Company has recognised a liability in the amount of \$279,386 as at 31 December 2017. The decision is currently being appealed by the Company in the Court of Appeal, expected to be heard in late 2018.

Following the acquisition of AEM on 8 December 2017 commitments of the Group have increased as follows:

Operating lease commitments	31 December 2017 \$	30 June 2017 \$
Within one year	300,469	-
Later than one year but not later than 5 years	610,032	-
	<hr/> 910,501	<hr/> -

At the reporting date there are no other changes to commitments or contingent liabilities.

## **Structural Monitoring Systems PLC**

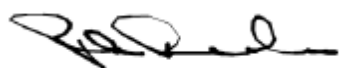
### **Directors' Declaration**

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

- (a) the attached condensed consolidated financial statements and notes of the Group:
  - (i) give a true and fair view of the financial position as at 31 December 2017 and the performance for the half-year ended on that date; and
  - (ii) comply with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.
- (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



Michael Reveley

Executive Director

Perth, Western Australia

28 February 2018

## INDEPENDENT REVIEW REPORT TO STRUCTURAL MONITORING SYSTEMS PLC

### ***Introduction***

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2017 which comprises the condensed statement of comprehensive income, the condensed statement of financial position as at 31 December 2017, the condensed statement of changes in equity and the condensed statement of cash flows for the half year ended on that date and the related explanatory notes that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent 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, for our review work, for this report, or for the conclusions we have formed.

### ***Directors' Responsibilities***

The half-yearly financial report, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing and presenting the half-yearly financial report in accordance with the rules of the Australian Stock Exchange.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

### ***Our Responsibility***

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### ***Scope of Review***

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information 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 Standards on Auditing (UK and Ireland) 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.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union and the rules of the Australian Stock Exchange.

*RSM UK Audit LLP*

### **RSM UK Audit LLP**

Chartered Accountants

25 Farringdon Street, London, EC4A 4AB

28 February 2018