



(Registered in England with Company No. 4834265
ARBN 106 307 322)

NOTICE OF ANNUAL GENERAL MEETING
and
EXPLANATORY STATEMENT
and
INDEPENDENT EXPERT'S REPORT
and
PROXY FORM

DATE AND TIME OF MEETING:
7 December 2017 at 3:45pm ADST

VENUE:
Holding Redlich
Level 65, 19-29 Martin Place,
Sydney NSW 2000

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

These documents should be read in their entirety. If you are in any doubt as to what action you should take, you are recommended to seek your own advice from your accountant, solicitor or other duly authorised professional adviser.

If you have sold or transferred all of your ordinary shares in Structural Monitoring Systems plc, please send this document, together with the accompanying form of proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

NOTICE OF GENERAL MEETING
STRUCTURAL MONITORING SYSTEMS PLC
REGISTERED NO 04834265

NOTICE IS HEREBY GIVEN that an Annual General Meeting ("**Meeting**") of members of Structural Monitoring Systems Plc ("**the Company**") will be held at Holding Redlich, Level 65, 19-29 Martin Place, Sydney, NSW 2000 on 7 December 2017 at 3:45pm ADST.

Holders of ordinary shares in the Company ("**Shareholders**") are requested to complete and return the enclosed form of proxy to the Company at Structural Monitoring Systems PLC, PO Box 661, Nedlands, Western Australia, 6909 or by facsimile to +61 08 9467 6111 by no later than 3:45pm ADST on 5 December 2017, whether or not they propose to be present at the Meeting.

The completion and return of a form of proxy will not prevent you from attending the Meeting and voting in person should you subsequently wish to do so.

Holders of CHESS Depositary Interests ("**CDIs**") are invited to attend and speak at the Meeting but are not entitled to vote personally at the Meeting. In order to have votes cast at the Meeting on their behalf, CDI holders must complete, sign and return the CDI Voting Instruction Form (as enclosed with this Notice) so that CHESS Depositary Nominees Pty Ltd ("**CDN**") can vote the underlying shares on your behalf. CDI holders are requested to complete and return the CDI Voting Instruction Form to the Company at Structural Monitoring Systems PLC, PO Box 661, Nedlands, Western Australia, 6909 or by facsimile to +61 08 9467 6111 by no later than 3:45pm ADST on 5 December 2017. An Explanatory Statement containing information in relation to the proposed resolutions accompanies this Notice.

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Important Notice

Important information

This Notice of Meeting, Explanatory Statement, Independent Expert's Report and Proxy Form are important documents and require your immediate attention. They should be read carefully in their entirety before you make a decision on how to vote at the General Meeting. If you have any doubt as to what you should do, please contact your financial or other professional adviser.

Purpose of the Explanatory Statement

The Explanatory Statement forms part of this Notice of Meeting and is provided to Shareholders to assist them in making a decision with respect to the Resolutions in this Notice of Meeting. The Explanatory Statement contains an explanation of and all information about the Resolutions, including the Proposed transaction that the Directors believe the Shareholders will reasonably require in deciding how to vote on the Resolutions.

The Explanatory Statement does not take into account the individual circumstances and investment objectives, financial situation and needs of each Shareholder or any other person. Accordingly, the Explanatory Statement is not to be solely used in determining how to vote on the Resolutions, Shareholders should obtain their own financial or other professional advice as required.

Forward looking statements and marketing and industry data

The Explanatory Statement may contain forward looking statements which are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may", and other similar words that involve risks and uncertainties. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company.

Any forward looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward looking statements contained in the Explanatory Statement will actually occur and investors are cautioned not to place undue reliance on these forward looking statements. The Company has no intention of updating or revising forward looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in the Explanatory Statement, except where required by law.

Defined terms and time

Defined terms and abbreviations used in the Notice of Meeting, Explanatory Statement and Proxy Form, unless otherwise defined in the body of the document, have the meanings given in the Glossary.

Unless otherwise stated or implied, references to times in the Notice of Meeting, Explanatory Statement and Proxy Form are to Perth, Australia time.

Disclaimer

Except as required by law, and only to the extent so required, neither the Company nor any other person warrants or guarantees the future performance of the Company.

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Key Dates

| | |
|------------------|--|
| 3 November 2017 | Share Sale Agreement executed |
| 8 November 2017 | Executed Share Sale Agreement exchanged and Proposed Transaction announced |
| 21 November 2017 | Notice of Meeting and Explanatory Statement despatched to Shareholders |
| 5 December 2017 | Deadline for receipt of Proxy Forms |
| 7 December 2017 | General Meeting |
| 8 December 2017 | Target date for completion of the Share Sale Agreement |

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Dear Shareholders

I am pleased to invite you to the Annual General Meeting of Structural monitoring Systems Plc for the financial year ended 30 June 2017. The Annual General Meeting is to be held will be held at at Holding Redlich, Level 65, 19-29 Martin Place, Sydney, NSW 2000 on 7 December 2017 at 3:45pm ADST.

In addition to the usual order of business for an Annual General Meeting, the Purpose of this meeting is for the Shareholders to also approve the re-election of the auditor and certain directors, issue of shares in the Company in lieu of amounts owed to directors and other officers of the Company, and to approve the proposed transaction announced by the Company on 8 November 2017.

The proposed Transaction

The Company intends to acquire 100% of the issued and outstanding shares in the capital of a private Canadian company, Anodyne Electronics Manufacturing Corp. from Anodyne Electronics Holding Corp. The purchase price under the transaction documents is Canadian \$10,000,000 (\$750,000 of which is to be held in escrow for 18 months following completion of the proposed transaction).

Related Party matters

Ray Lewis recently resigned as a director of the Company but is still a related party. He also owns an indirect interest in Anodyne Electronics Manufacturing Corp., equating to approximately 11% of its total equity.

Given the consideration payable, the Company's current equity account balance, the proposed transaction will amount to the acquisition of a 'substantial asset' for the purposes of the ASX Listing Rules. Accordingly, shareholder approval is required for the proposed transaction in accordance with ASX Listing Rule 10.1.

Independent Expert

The Company has engaged Grant Thornton for the purposes of preparing an Independent Expert's Report with respect to the proposed transaction in accordance with the ASX Listing Rules.

The Independent Expert, Grant Thornton, has formed the opinion that the proposed transaction is fair and reasonable to the holders of the Company's ordinary securities whose votes are not to be disregarded. A copy of the Independent Expert's Report on the fairness and reasonableness of the proposed transaction is attached to this Notice of Meeting and Explanatory Memorandum.

Independent Directors' recommendation

The Independent Directors of the Company unanimously recommend shareholders vote in favour of the resolutions set out in this Notice of Meeting, and in particular to approve the proposed transaction, for the reasons detailed in the Explanatory Memorandum.

Sincerely
Toby Chandler, CEO
21 November 2017

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A G E N D A

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 30 June 2017 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

Copies of the Financial Report, Directors' Report and Auditor's Report are available on the Company's website (www.smsystems.com.au).

RESOLUTION 1: RE-APPOINTMENT OF DIRECTOR – R MICHAEL REVELEY

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

Mr R. Michael Reveley

"That R. Michael Reveley who retires by rotation in accordance with Article 25.2 of the Articles of Association and, being eligible, offers himself for re-appointment, be re-appointed as a director of the Company".

RESOLUTION 2: RE-APPOINTMENT OF DIRECTOR – WILLIAM ROUSE

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

Mr William Rouse

"That William Rouse who retires in accordance with Article 20.2 of the Articles of Association and, being eligible, offers himself for re-appointment, be re-appointed as a director of the Company."

RESOLUTION 3: RE-APPOINTMENT OF AUDITORS

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That RSM UK Audit LLP, having previously consented in writing to act in the capacity of auditor, be re-appointed as auditor of the Company from the conclusion of this Meeting until the conclusion of the next "accounts meeting" of the Company pursuant to section 489(4)(a) of the UK Companies Act 2006. The Directors are hereby authorised to fix the remuneration of the Company's auditors."

RESOLUTION 4: RATIFICATION OF PRIOR ISSUE OF SECURITIES

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 10,080,000 fully paid ordinary shares in the Company on the terms and conditions set out in the Explanatory Statement."

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Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

RESOLUTION 5: APPROVAL OF ISSUE OF SECURITIES TO DAVID VEITCH

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to issue up to 320,000 fully paid ordinary shares in the Company to David Veitch or his nominee on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by David Veitch and a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 6: APPROVAL OF ISSUE OF SECURITIES TO WILLIAM ROUSE

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue up to 100,000 fully paid ordinary shares in the Company to William Rouse or his nominee on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by William Rouse and a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 7: ISSUE OF PERFORMANCE RIGHTS TO R MICHAEL REVELEY

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to issue up to 800,000 Performance Rights in the Company to R. Michael Reveley or his nominee on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by R. Michael Reveley, William Rouse, Toby Chandler and Andrew Chilcott and a person who may receive securities under the Resolution or a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance

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with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 8: ISSUE OF PERFORMANCE RIGHTS TO ANDREW CHILCOTT

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to issue up to 100,000 Performance Rights in the Company to Andrew Chilcott or his nominee on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by R. Michael Reveley, William Rouse, Toby Chandler and Andrew Chilcott and a person who may receive securities under the Resolution or a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 9: ISSUE OF PERFORMANCE RIGHTS TO WILLIAM ROUSE

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to issue up to 625,000 Performance Rights in the Company to William Rouse or his nominee on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by R. Michael Reveley, William Rouse, Toby Chandler and Andrew Chilcott and a person who may receive securities under the Resolution or a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 10: ISSUE OF SHARES TO R MICHAEL REVELEY

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue up to 30,890 fully paid ordinary shares in the Company to R. Michael Reveley or his nominee on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by R. Michael Reveley and a person who may receive securities under the Resolution or a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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RESOLUTION 11: ISSUE OF SHARES TO TOBY CHANDLER

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue up to 41,186 fully paid ordinary shares in the Company to Toby Chandler or his nominee on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Toby Chandler and a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides

RESOLUTION 12: APPROVAL OF PROPOSED TRANSACTION FOR THE PURPOSES OF ASX LISTING RULES

To consider and, if thought fit, to pass, with or without amendment (to the extent permitted by English law), the following Resolution as an ordinary resolution:

"That, for the purpose of ASX Listing Rule 10.1 and for all other purposes, approval is given for the purchase of 100% of the shares of Anodyne Electronics Holding Corp. pursuant to the terms of the Share Sale Agreement, as set out in the Explanatory Statement."

Voting Exclusion: In accordance with ASX Listing Rules 10.1 and 14.11, the Company will disregard any votes cast on the Resolution by:

- Ray Lewis and David Veitch;
- any other party to the transaction; and
- any associate of those members.

However, a person (the voter) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on this Resolution;
or
- the voter is the Chair and the appointment of the Chair as proxy specifies the way the Chair is to vote on this Resolution.

Independent Expert's Report: Shareholders should carefully consider the report issued by the Independent Expert for the purposes of the approval required under ASX Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the Transaction which is the subject of this Resolution. The Independent Expert has determined that the Transaction is fair and reasonable to holders of the Company's securities whose votes are not being disregarded.

Recommendation: The Independent Directors of the Company unanimously recommend that the Shareholders vote in favour of this Resolution. Ray Lewis does not consider himself justified in making a recommendation with respect to this Resolution as he is a related party of the Company and has an interest in the outcome of the Resolution given he will receive and indirect financial benefit from the proposed transaction through his indirect ownership of the target entity.

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Voting Statement: The Chair intends to vote any undirected proxies in favour of this Resolution. Please refer to the proxy form accompanying this Notice of Meeting for more information.

PROXIES

Shareholders are advised that:

1. As a holder of ordinary shares in the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. A proxy need not be a member of the Company.
2. In the case of joint holders, the vote of the person first named in the register of members tendering a vote will be accepted to the exclusion of the votes of the other joint holders.
3. In the case of a corporation, the form of proxy must be expressed to be executed by the corporation and must be executed under its common seal, or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation.
4. To be valid, the form of proxy and any power of attorney or other authority under which it is signed or a notorially certified copy of such power or authority must be deposited with the Company at Structural Monitoring Systems PLC, PO Box 661, Nedlands, Western Australia, 6909 or by facsimile to +61 08 9467 6111 by no later than 3:45pm ADST on 5 December 2017.
5. The completion and return of a proxy card will not affect the right of a member to attend, speak and vote in person at the meeting convened by this notice.
6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.

To direct your proxy how to vote on the resolutions mark the appropriate box with an "X". To abstain from voting on a resolution, select the relevant "abstain" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

7. Members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

BY ORDER OF THE BOARD



Sam Wright
Company Secretary
Dated: 21 November 2017

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EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide Shareholders with certain information known to the Company that the Company deems to be material to Shareholders in deciding whether or not to approve the proposed Resolutions.

The Directors recommend that Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

Certain capitalised terms in this Explanatory Statement are defined in the Glossary.

1. RECEIPT OF FINANCIAL REPORT, DIRECTORS' REPORT AND AUDITOR'S REPORT

It is proposed that the Financial Report of the Company for the year ended 30 June 2017 together with the Directors' Report in relation to that financial year and the Auditor's Report on the financial report will be received at the Annual General Meeting. Copies of the Financial Report, Directors' Report and Auditor's Report are available on the Company's website (www.smsystems.com.au).

2. RESOLUTION 1: RE-APPOINTMENT OF DIRECTOR – R. MICHAEL REVELEY

Resolution 1 seeks approval for the re-appointment of R. Michael Reveley as Director.

Article 25.2 of the Articles of Association provides that at each annual general meeting of the Company one-third of the Directors (other than those retiring as Directors appointed by the Board in accordance with Article 20.2) or, if their number is not three or a multiple of three, then such number as is nearest to but not exceeding 33.3% shall retire from office. Article 25.3 of the Articles of Association provides that any Directors to so retire shall be the Directors who have been longest in office since their last election. ASX Listing Rule 14.4 provides that a director of an entity (other than a managing director) must not hold office (without re-election) past the third annual general meeting following the director's appointment or 3 years, whichever is the longer.

Mr Reveley was last re-appointed a Director at the 2014 annual general meeting on 10 November 2014. Mr Reveley will retire from office at the Annual General Meeting in accordance with the above requirements and submits himself for re-appointment.

Mr Reveley is an Executive Director of the Company. Details of the qualifications and expertise of Mr Reveley are set out in the 2017 Annual Report of the Company.

The Board recommends the re-election of Mr Reveley as a Director.

3. RESOLUTION 2: RE-APPOINTMENT OF DIRECTOR – WILLIAM ROUSE

Resolution 2 seeks approval for the re-appointment of William Rouse as Director.

Article 20.2 of the Articles of Association provides Board may from time to time and at any time appoint any other person to be a Director either to fill a casual vacancy or by way of addition to the Board. A Director so appointed shall hold office only until the Annual General Meeting following next after his appointment, when he shall retire, but shall then be eligible for re-election.

Mr Rouse, an Executive Director was appointed by the Board as an additional director on 8 November 2017. He will automatically retire from office at this Annual General Meeting of the Company in accordance with Article 20.2 of the Articles of Association, and offers himself for re-election. Mr Rouse retires in accordance with these provisions, and being eligible, offers himself for re-election as a Director.

Mr Rouse is an Executive Director of the Company.

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On 8 November 2017, the Company announced that Mr. William (“Will”) Rouse joined the SMS Board as an Executive Director to oversee the acquisition and continued operations of AEM. Will is an experienced senior banker, finance executive and “serial entrepreneur” focused on the acquisition and optimised growth of specialised manufacturing-related businesses. In his last role, Will acquired Simcro Ltd (“Sincro”) in 2007, a New Zealand-based export-manufacturer. Will sold his majority stake in Simcro in 2013 to The Riverside Company, a New York private equity group, retaining a 20% shareholding. Simcro then acquired two further operating businesses in NZ and Australia in 2015, with Will leading these acquisitions. Simcro was recently sold to a global multinational. Will is a Chartered Accountant and remains on the Board of Simcro.

The Directors recommend the re-election of Mr Rouse as a Director.

4. RESOLUTION 3 - RE-APPOINTMENT OF AUDITORS

Resolution 3 seeks Shareholder approval for the re-appointment of RSM UK Audit LLP as the Company’s auditors and for the Directors to fix their remuneration.

The UK Companies Act 2006 (“**2006 Act**”) provides that shareholders may appoint auditors of public companies by ordinary resolution at the general meeting of the company at which the company’s annual accounts are laid (usually the annual general meeting) defined as the “accounts meeting” (section 489(4)(a), 2006 Act) and that there is no deemed re-appointment. Resolution 3, therefore, proposes the re-appointment of RSM UK Audit LLP as the Company’s auditors until the conclusion of the next “accounts meeting” of the Company.

In accordance with section 492 of the 2006 Act, the remuneration of the auditors appointed by a company in general meeting is to be fixed by the company in general meeting or in a manner that the company in general meeting determines. Resolution 3 authorises the Directors to fix the remuneration of the auditors in accordance with this requirement.

5. RESOLUTION 4 - RATIFICATION OF PRIOR ISSUE OF SECURITIES

5.1 General

As announced on 8 November 2017, the Company issued 10,080,000 shares at \$1.25 per Share pursuant to a placement (“**Placement**”) to institutional, sophisticated and professional investors.

Resolution 4 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those securities.

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue, or agree to issue, during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

5.2 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the issue of the securities:

- (a) 10,080,000 Shares were issued;

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- (b) the issue price for the Shares was \$1.25 each;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the securities were issued to institutional, sophisticated and professional investors. No Shares were issued to any related parties of the Company; and
- (e) the funds raised will be used to fund the Company's acquisition of AEM and for general working capital purposes.

6. RESOLUTION 5 – ISSUE OF SHARES TO DAVID VEITCH

General

The Company has agreed to allot and issue up to 320,000 ordinary shares to Mr David Veitch (or his nominees) on the terms and conditions set out below.

The issue of the Shares to Mr Veitch is as a subscriber under the Placement announced on 8 November 2017. The reason that these shares are being approved under ASX Listing Rule 7.1 and not ratified under Resolution 4, is that Mr Veitch will complete following shareholder approval.

David Veitch is a former director of SMN, who resigned in October 2016. Through his 50% shareholding in Wiltronics Holdings Ltd and wholly owned entity, Veitronics Holdings Ltd, David Veitch and his associates have a relevant interest in approximately 89% of the share capital of AEH (Veitch Interest). Conversely, through holding the Veitch Interest, David Veitch and his associates have a relevant interest in 89% of AEM.

Under the Proposed Transaction, David Veitch and his associates, by implication, have an interest in the Proposed Transaction equal to C\$ 8.9m (i.e. 89% of the Purchase Price). However, as David Veitch has not been a director of SMN for over a year, the Board is of the view that the provisions of ASX Listing Rule 10.11 should not apply to this issue of Shares. The Company is therefore only seeking ASX Listing Rule 7.1 approval for this issue of Shares to David Veitch. The Directors unanimously recommend voting in favour of the Resolution.

ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue, or agree to issue, during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities on issue at the commencement of that 12 month period.

By obtaining Shareholder approval to issue ordinary shares to Mr Veitch or his nominee, the Company retains its 15% capacity under Listing Rule 7.1.

Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the ordinary shares:

- (a) the maximum number of securities to be issued is 320,000 Shares to Mr Veitch or his nominee;
- (b) the Shares will be issued no later than 3 months after the date of the Annual General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (c) the Shares will be issued at an issue price of \$1.25 each;

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- (d) the Shares will be issued to Mr Veitch or his nominee under a subscription agreement for the capital raising. Mr Veitch is not a related party of the Company;
 - (e) the Shares will rank equally in all respects from the date of allotment with the existing fully paid ordinary shares;
 - (f) funds will be used for working capital purposes; and
 - (g) An amount of \$400,000 will be raised from the issue of the Shares.
-

7. RESOLUTION 6 - ISSUE OF SECURITIES TO WILLIAM ROUSE

7.1 General

Mr Rouse has been instrumental in conducting due diligence and negotiating for the Company to acquire Anodyne Electronics Manufacturing Corp. To reward Mr Rouse for his efforts, the Company intends to issue (subject to Shareholder approval), 100,000 Shares.

The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Shares upon the terms proposed.

The Directors resolved to issue the Shares at a deemed issue price of \$1.25 which is the same price as the Placement.

7.2 ASX Listing Rule 10.11

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues or agrees to issue securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

Accordingly, approval is sought in accordance with ASX Listing Rule 10.11 from Shareholders for the issue of the shares.

Technical information required by ASX Listing Rule 10.11

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of shares to Mr Reveley:

- (a) The shares will be issued to Mr Rouse or his nominee;
- (b) The maximum number of shares to be issued is 100,000;
- (c) The Company proposes to issue the shares to Mr Reveley or his nominee no later than one month after the date of the Annual General Meeting;
- (d) Mr Rouse is a Director of the Company;
- (e) The shares will be issued at a deemed price of \$1.25 being the same price as the Placement;
- (f) The shares will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing fully paid ordinary shares; and
- (g) No funds will be raised by the issue of these shares.

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Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the shares to Mr Rouse as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the shares to Mr Rouse will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

8. RESOLUTION 7 – ISSUE OF PERFORMANCE RIGHTS TO R. MICHAEL REVELEY

8.1 Background

Resolution 5 seeks Shareholder approval for the issue of Performance Rights to R. Michael Reveley pursuant to ASX Listing Rule 10.14. The Performance Rights are being issued under the terms of the Structural Monitoring Systems Performance Rights Plan (Plan) approved by Shareholders on 27 November 2015.

ASX Listing Rule 10.11 requires Shareholder approval to be obtained where an entity issues, or agrees to issue securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

An exception to ASX Listing Rule 10.11 is set out in ASX Listing Rule 10.12 (exception 4) which provides that ASX Listing Rule 10.11 does not apply to issue made with the approval of shareholders under ASX Listing Rule 10.14.

ASX Listing Rule 10.14 provides that an entity must only allow directors or their associates to acquire securities under an employee incentive plan with the approval of shareholders and provided the notice of meeting complies with ASX Listing Rule 10.15 or 10.15A.

The issue of Performance Rights (and any subsequent share on satisfaction of performance hurdles) is seen as a cost effective way of providing the Director a tangible incentive to enhance the performance of the Company.

Information Required by ASX Listing Rules

For the purposes of ASX Listing Rules 10.14 and 10.15A the following information is provided:

- (a) The Performance Rights will be issued to R. Michael Reveley;
- (b) The maximum number of securities that may be acquired by R. Michael Reveley or his nominee under the Plan is up to 800,000 Performance Rights;
- (c) The terms of the Performance Rights are set out in Schedule 1;
- (d) There is no monetary consideration payable for the issue of the Performance Rights;
- (e) Shareholder approval to issue Performance Rights under the Plan was last given at the 2015 annual general meeting held on 27 November 2015. Since that date, the Company has issued the following Performance Rights to the current and former Directors under the Plan:

| Director | Number of Performance Rights | Number of Performance Rights voluntarily forfeited/lapsed | Number of Performance Rights converted to shares on satisfaction of the milestones | Acquisition price |
|---------------|------------------------------|---|--|-------------------|
| Toby Chandler | 558,333 | Nil | Nil | Nil |

- (f) Performance Rights are subject to share price hurdles as follows:

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| Related Party | Tranche 1 NIL | Tranche 2- \$2.00 | Tranche 3- \$2.50 | Tranche 4- \$3.00 | Tranche 5- \$3.25 | Tranche 6- \$3.50 | Tranche 7- \$3.75 | Total |
|------------------------|----------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| Robert Reveley | 200,000 ¹ | 200,000 | 200,000 | 100,000 | 25,000 | 25,000 | 50,000 | 800,000 |
| Andrew Chilcott | | 200,000 ² | 25,000 | 25,000 | 25,000 | 25,000 | | 300,000 |
| William Rouse | | 400,000 ² | 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 |

Note:

(1) To be issued on receipt of shareholder approval

(2) In addition to share price based hurdle, 50% with an additional time based hurdle of 12 months to 15 December 2018.

- (g) All Directors are entitled to participate in the Plan. At the date of this Notice, the Directors are Toby Chandler, Michael Reveley and Andrew Chilcott. Ray Lewis resigned effective from 7 November 2017 and William Rouse will become a board member on and from the date of this meeting.
- (f) No loans will be provided to Directors in relation to the acquisition of the Performance Rights under the Plan.
- (g) Details of any securities issued under the Plan will be published in each annual report of the entity relating to a period in which securities have been issued, and that approval for the issue of securities was obtained under ASX Listing Rule 10.14.
- (h) The Performance Rights will be issued no later than 3 years from the date of this Meeting.

9. RESOLUTION 8 – ISSUE OF PERFORMANCE RIGHTS TO ANDREW CHILCOTT

9.1 Background

Resolution 5 seeks Shareholder approval for the issue of Performance Rights to Andrew Chilcott pursuant to ASX Listing Rule 10.14. The Performance Rights are being issued under the terms of the Structural Monitoring Systems Performance Rights Plan (Plan) approved by Shareholders on 27 November 2015.

ASX Listing Rule 10.11 requires Shareholder approval to be obtained where an entity issues, or agrees to issue securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

An exception to ASX Listing Rule 10.11 is set out in ASX Listing Rule 10.12 (exception 4) which provides that ASX Listing Rule 10.11 does not apply to issue made with the approval of shareholders under ASX Listing Rule 10.14.

ASX Listing Rule 10.14 provides that an entity must only allow directors or their associates to acquire securities under an employee incentive plan with the approval of shareholders and provided the notice of meeting complies with ASX Listing Rule 10.15 or 10.15A.

The issue of Performance Rights (and any subsequent share on satisfaction of performance hurdles) is seen as a cost effective way of providing the Director a tangible incentive to enhance the performance of the Company.

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Information Required by ASX Listing Rules

For the purposes of ASX Listing Rules 10.14 and 10.15A the following information is provided:

- (a) The Performance Rights will be issued to Andrew Chilcott;
- (b) The maximum number of securities that may be acquired by Andrew Chilcott or his nominee under the Plan is up to 300,000 Performance Rights;
- (c) The terms of the Performance Rights are set out in Schedule 1;
- (d) There is no monetary consideration payable for the issue of the Performance Rights;
- (e) Shareholder approval to issue Performance Rights under the Plan was last given at the 2015 annual general meeting held on 27 November 2015. Since that date, the Company has issued the following Performance Rights to the current and former Directors under the Plan:

| Director | Number of Performance Rights | Number of Performance Rights voluntarily forfeited/lapsed | Number of Performance Rights converted to shares on satisfaction of the milestones | Acquisition price |
|---------------|------------------------------|---|--|-------------------|
| Toby Chandler | 558,333 | Nil | Nil | Nil |

- (f) Performance Rights are subject to share price hurdles as follows:

| Related Party | Tranche 1 NIL | Tranche 2- \$2.00 | Tranche 3- \$2.50 | Tranche 4- \$3.00 | Tranche 5- \$3.25 | Tranche 6- \$3.50 | Tranche 7- \$3.75 | Total |
|------------------------|----------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| Robert Reveley | 200,000 ¹ | 200,000 | 200,000 | 100,000 | 25,000 | 25,000 | 50,000 | 800,000 |
| Andrew Chilcott | | 200,000 ² | 25,000 | 25,000 | 25,000 | 25,000 | | 300,000 |
| William Rouse | | 400,000 ² | 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 |

Note:

- (1) To be issued on receipt of shareholder approval
- (2) In addition to share price based hurdle, 50% with an additional time based hurdle of 12 months to 15 December 2018.

- (g) All Directors are entitled to participate in the Plan. At the date of this Notice, the Directors are Toby Chandler, Michael Reveley and Andrew Chilcott. Ray Lewis resigned effective from 7 November 2017 and William Rouse will become a board member on and from the date of this meeting.
- (i) No loans will be provided to Directors in relation to the acquisition of the Performance Rights under the Plan.

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- (j) Details of any securities issued under the Plan will be published in each annual report of the entity relating to a period in which securities have been issued, and that approval for the issue of securities was obtained under ASX Listing Rule 10.14.
- (k) The Performance Rights will be issued no later than 3 years from the date of this Meeting.

10. RESOLUTION 9 – ISSUE OF PERFORMANCE RIGHTS TO WILLIAM ROUSE

10.1 Background

Resolution 5 seeks Shareholder approval for the issue of Performance Rights to William Rouse pursuant to ASX Listing Rule 10.14. The Performance Rights are being issued under the terms of the Structural Monitoring Systems Performance Rights Plan (Plan) approved by Shareholders on 27 November 2015.

ASX Listing Rule 10.11 requires Shareholder approval to be obtained where an entity issues, or agrees to issue securities to a related party, or a person whose relationship with the entity or a related party is, in ASX’s opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

An exception to ASX Listing Rule 10.11 is set out in ASX Listing Rule 10.12 (exception 4) which provides that ASX Listing Rule 10.11 does not apply to issue made with the approval of shareholders under ASX Listing Rule 10.14.

ASX Listing Rule 10.14 provides that an entity must only allow directors or their associates to acquire securities under an employee incentive plan with the approval of shareholders and provided the notice of meeting complies with ASX Listing Rule 10.15 or 10.15A.

The issue of Performance Rights (and any subsequent share on satisfaction of performance hurdles) is seen as a cost effective way of providing the Director a tangible incentive to enhance the performance of the Company.

Information Required by ASX Listing Rules

For the purposes of ASX Listing Rules 10.14 and 10.15A the following information is provided:

- (a) The Performance Rights will be issued to William Rouse;
- (b) The maximum number of securities that may be acquired by William Rouse or his nominee under the Plan is up to 625,000 Performance Rights;
- (c) The terms of the Performance Rights are set out in Schedule 1;
- (d) There is no monetary consideration payable for the issue of the Performance Rights;
- (e) Shareholder approval to issue Performance Rights under the Plan was last given at the 2015 annual general meeting held on 27 November 2015. Since that date, the Company has issued the following Performance Rights to the current and former Directors under the Plan:

| Director | Number of Performance Rights | Number of Performance Rights voluntarily forfeited/lapsed | Number of Performance Rights converted to shares on satisfaction of the milestones | Acquisition price |
|----------|------------------------------|---|--|-------------------|
| | | | | |

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| | | | | |
|---------------|---------|--|--|-----|
| Toby Chandler | 558,333 | | | Nil |
|---------------|---------|--|--|-----|

(f) Performance Rights are subject to share price hurdles as follows:

| Related Party | Tranche 1 NIL | Tranche 2- \$2.00 | Tranche 3- \$2.50 | Tranche 4- \$3.00 | Tranche 5- \$3.25 | Tranche 6- \$3.50 | Tranche 7- \$3.75 | Total |
|------------------------|----------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| Robert Reveley | 200,000 ¹ | 200,000 | 200,000 | 100,000 | 25,000 | 25,000 | 50,000 | 800,000 |
| Andrew Chilcott | | 200,000 ² | 25,000 | 25,000 | 25,000 | 25,000 | | 300,000 |
| William Rouse | | 400,000 ² | 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 |

Note:

- (1) To be issued on receipt of shareholder approval
(2) In addition to share price based hurdle, 50% with an additional time based hurdle of 12 months to 15 December 2018.

- (g) All Directors are entitled to participate in the Plan. At the date of this Notice, the Directors are Toby Chandler, Michael Reveley and Andrew Chilcott. Ray Lewis resigned effective from 7 November 2017 and William Rouse will become a board member on and from the date of this meeting.
- (l) No loans will be provided to Directors in relation to the acquisition of the Performance Rights under the Plan.
- (m) Details of any securities issued under the Plan will be published in each annual report of the entity relating to a period in which securities have been issued, and that approval for the issue of securities was obtained under ASX Listing Rule 10.14.
- (n) The Performance Rights will be issued no later than 3 years from the date of this Meeting.

11. RESOLUTION 10 - ISSUE OF SHARES TO R. MICHAEL REVELEY

11.1 General

In the Notice of Meeting for the Company's 2016 AGM, it was noted that Mr Reveley voluntarily forfeited his right to have 30,890 shares issued to him in lieu of director's fees. To make up for those voluntarily forfeited shares, the Company has agreed, subject to obtaining Shareholder approval, to issue up to 30,890 ordinary shares to Mr Reveley (or his nominees) on the terms and conditions set out below.

The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Shares upon the terms proposed.

The Directors resolved to issue the Shares at a deemed issue price of \$1.48 each which is the 5 day VWAP of the Company's shares at the time the Directors made such resolution being 9 November 2017.

11.2 ASX Listing Rule 10.11

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ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues or agrees to issue securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

Accordingly, approval is sought in accordance with ASX Listing Rule 10.11 from Shareholders for the issue of the shares.

Technical information required by ASX Listing Rule 10.11

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of shares to Mr Reveley:

- (h) The shares will be issued to Mr Reveley or his nominee;
- (i) The maximum number of shares to be issued is 30,890;
- (j) The Company proposes to issue the shares to Mr Reveley or his nominee no later than one month after the date of the Annual General Meeting;
- (k) Mr Reveley is a Director of the Company;
- (l) The shares will be issued at a deemed price of \$1.48;
- (m) The shares will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing fully paid ordinary shares;
- (n) No funds will be raised by the issue of these shares as they are being issued in place of shares voluntarily forfeited by Mr Reveley and noted in the Notice of AGM 2016.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the shares to Mr Reveley as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the shares to Mr Reveley will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

12. RESOLUTION 11 - ISSUE OF SHARES TO TOBY CHANDLER

12.1 General

In the Notice of Meeting for the Company's 2016 AGM, it was noted that Mr Chandler voluntarily forfeited his right to have 41,186 shares issued to him in lieu of director's fees. To make up for those voluntarily forfeited shares, the Company has agreed, subject to obtaining Shareholder approval, to issue up to 41,186 ordinary shares to Mr Chandler (or his nominees) on the terms and conditions set out below.

The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Shares upon the terms proposed.

The Directors resolved to issue the Shares at a deemed issue price of \$1.48 each which is the 5 day VWAP of the Company's shares at the time the Directors made such resolution being 9 November 2017.

12.2 ASX Listing Rule 10.11

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues or agrees to issue securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

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Accordingly, approval is sought in accordance with ASX Listing Rule 10.11 from Shareholders for the issue of the shares.

Technical information required by ASX Listing Rule 10.11

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of shares to Mr Chandler:

- (o) The shares will be issued to Mr Chandler or his nominee;
- (p) The maximum number of shares to be issued is 41,186;
- (q) The Company proposes to issue the shares to Mr Chandler or his nominee no later than one month after the date of the Annual General Meeting;
- (r) Mr Chandler is a Director of the Company;
- (s) The shares will be issued at a deemed price of \$1.48;
- (t) The shares will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing fully paid ordinary shares;
- (u) No funds will be raised by the issue of these shares as they are being issued in place of shares voluntarily forfeited by Mr Chandler and noted in the Notice of AGM 2016.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the shares to Mr Chandler as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the shares to Mr Chandler will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

13. RESOLUTION 12: APPROVAL OF PROPOSED TRANSACTION FOR THE PURPOSES OF ASX LISTING RULES

13.1 Overview of the Proposed Transaction

13.1.1 Background

The Company is proposing to acquire 100% of the issued and outstanding shares in the capital of a private Canadian company, Anodyne Electronics Manufacturing Corp. (**AEM**), from AEM's sole shareholder, Anodyne Electronics Holding Corp (**AEH** or **Vendor**), through a fully owned subsidiary Canadian subsidiary of the Company, Structural Monitoring Systems Canada Corp. (**Purchaser**), (**Proposed Transaction**).

A Share Sale Agreement (**SSA**) has been executed in order to complete the Proposed Transaction. Under the SSA, the Purchaser will pay C\$10,000,000 for all of the shares in AEM (with C\$750,000 to be held in escrow for 18 months following completion of the Proposed Transaction), (**Purchase Price**).

Completion of under the SSA is conditional on a number of conditions precedent being satisfied or (where relevant) waived, including the Company obtaining Shareholder approval with respect to ASX Listing Rule 10.1. Further details with respect to the terms and conditions of the SSA is set out in section 12.3.2 of this Explanatory Statement.

13.1.2 Key advantages for Shareholders

The Company, by virtue of acquiring AEM will be better able to service its and the existing client base

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of AEM.

The Company is shifting its focus away 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 'turnkey platform' for vertical manufacturing integration in to the Company. Rather than having to build a manufacturing platform, the Company will acquire 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.

13.1.3 Potential disadvantages and risks for Shareholders

Potential disadvantages of the Proposed Transaction include the following:

- (a) Upfront transaction costs and subsequent integration costs provide no certainty as to the successful integration of AEM and therefore the Proposed Transaction.
- (b) Shareholders will be exposed to the risks relating to the Proposed Transaction as described in section 9.3.5.
- (c) The impact of the Proposed Transaction on the Company's share price is uncertain.

13.2 Key Questions Answered

| | |
|---|--|
| Why has the Company issued this Explanatory Memorandum? | This Explanatory Memorandum has been issued to provide all of the information that is known to the Company or any of its Director which may be reasonably required by Shareholders to determine how to vote with respect to each Resolution in the Notice of Meeting, in particular with respect to this Resolution which requires Shareholder approval in accordance with ASX Listing Rule 10.1. |
| What is the Proposed Transaction? | The Proposed Transaction involved the acquisition of all of the issued securities in AEM, by a subsidiary of the Company for a total consideration of C\$10,000,000. |
| Given it is a Related party Transaction, why was AEM selected as an acquisition target, and why is this acquisition in the best interest of the Company? | <p>The Company is very familiar with AEM and its business and the Directors have identified many synergies between the operations of the two businesses. AEM is an existing manufacturer of the Company's proprietary CVM™ sensors and related equipment. AEM has built a solid reputation in the aviation industry for providing high quality products and has been integral in the research and development of the CVM™ product line.</p> <p>Given the Company's current and projected growth path, the Company is in need of an in-house manufacturing platform to support its growth and the demands of its clients. AEM provides a perfect 'key turn' solution for the needs of the Company, in that it has a well-established manufacturing platform with a strong team of 90+ professional staff. AEM also has a number of key certifications required by Canadian and international regulators which permits AEM to supply products to the aerospace industry.</p> <p>The Company has determined that establishing its own in-house manufacturing platform will be time consuming and costly. The diversion of funds and man power toward the building of an in-house manufacturing platform would reduce the ability of the Company to effectively compete in the market. The acquisition of such a platform through the acquisition of AEM provides the Company with</p> |

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a quick solution to address the Company's needs. This will enable the Company to focus on commercialisation of its technology instead.

The Independent Directors of the Company are of the view that the advantages of the acquisition significantly outweigh the complexities arising from its Related Party nature.

Given it is a Related party Transaction, how was the Purchase Price for the acquisition of AEM determined?

The Company undertook a detailed legal, financial and tax due diligence of AEM, including an overview of its contracts, historical and projected financials such as profitability and cash flow.

This was analysed was undertaken in light of potential advantages of the vertical integration of the Company's and AEM's businesses and the long term strategic goals of the Company.

Further, the Company considered the potential cost of the Proposed Transaction against the budgeted costs of building an in-house manufacturing platform and the potential opportunity loss caused as a result of having to divert funds and time to building an in-house manufacturing platform.

AEM has consistently achieved an EBITDA of approximately C\$2 million per annum for the last 5 years. The Purchase Price is at a multiple of 5 times the approximate EBITDA of AEM which is typical of similar transactions within the industry. Further, AEM is required to have a certain level of working capital which effectively reduces the Purchase Price as the Company will not need to fund all of the working capital needs of AEM following completion of the Proposed Transaction. Finally, the Purchase Price was negotiated by the Michael Reveley, Will Rouse and Toby Chandler on behalf of the Company (with Ray Lewis abstaining from all decision on the part of the Company), and by David Veitch and Ray Lewis on behalf of AEH. The respective parties also availed themselves of professional advisers which is indicative of the fact that the Proposed Transaction was negotiated at arms' length.

How will the acquisition be financed?

The Company completed a share placement on 8 November 2017, pursuant to which it raised A\$13 million. This capital raising was announced to the market on the same day.

The capital raising was a private placement by the Company using the capacity under ASX Listing Rule 7.1. Shares were issued at \$1.25 each (approximately a 4% discount to both the 20 day and 30 day VWAP).

The funds raised will be used to pay the Purchase Price and all costs associated with the Proposed Transaction. The excess funds raised is proposed to be retained by the Company in order for the Company to maintain a material liquidity profile and an optimal level of strategic cash reserves.

Why is no part of the purchase consideration to be provided via the issue of shares?

The introduction of Company shares as part of consideration for the Proposed Transaction introduced additional complexities regarding the negotiation of an assumed share price at which the shares were to be issued.

The all cash consideration was also more attractive to the Vendor, thereby simplifying the overall negotiation of the Proposed Transaction.

How was the amount to be held in escrow determined and why is this considered adequate?

The amount to be retained in escrow was negotiated as a key element of the agreement reached with respect to the Purchase Price. In determining this amount, the Company considered the likelihood of any warranty and indemnity claims arising. The escrow amount equates to 7.5% of the Purchase Price which was the highest amount the Vendors were willing to offer to be held in escrow.

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The Directors note, that the quantum of the escrow amounts does not however limit the ability of the Company to make warranty or indemnity claims against the Vendor.

If approved, when will the Proposed Transaction be implemented?

The Directors intend to integrate the AEM business into the Company's operations as soon as possible.

On the assumption that the Proposed Transaction is approved, the Company proposed to complete the acquisition under the SSA on the business day following the date of the meeting, 1 December 2017.

What does the Independent Expert say about the Proposed Transaction?

The Independent Expert, has formed the opinion that the Proposed Transaction is fair and reasonable to the holders of the Company's ordinary securities whose votes are not to be disregarded.

What do the Independent Directors of the Company say about the Proposed Transaction?

The Independent Directors of the Company recommend Shareholders vote in favour of Resolution 9.

What happens if this Resolution is not approved?

If this Resolution is not approved, the Company will not be able to complete the Proposed Transaction.

As previously stated, the Company is in need of a manufacturing platform to address the future objectives of the Company and to meet client demands. Without the AEM platform, the Company will have to consider alternative solutions, including to build its own manufacturing platform which the Company considers will be time consuming, costly and not in the best interest of the Company.

13.3 The Proposed Transaction

13.3.1 Background to AEM

AEM is a 100% employee-owned, vertically integrated company established in the province of British Columbia, Canada. AEM is a company with integral skill, experience and capability within the aviation industry. AEM is a leading designer and manufacturer of avionics, aircraft audio systems, intercoms, tactical FM radio systems, illuminated panels & 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.

Being vertically integrated allows AEM to compete effectively in its market while providing maximum oversight on quality and delivery commitments. AEM has a number of prominent customers within the European aviation industry (including for example, Lufthansa, Agusta Westland SpA and Cobham Aerospace Communications).

13.3.2 Summary of the SSA

The Company incorporated the Purchaser in Canada to acquire AEM as part of the Proposed Transaction.

The SSA was executed by the respective parties on 8 November 2017. Under the SSA, the Purchaser

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will acquire all of the issued capital of AEM from the Vendor. The key terms of the SSA are as follows:

- AEM will be sold on a cash free, debt free basis, subject to a retention of a working capital amount of no less than C\$5.6 million.
- Completion under the SSA will be conditions, which conditions precedent are detailed below.
- The Purchase Price is C\$10,000,000, the sum of C\$750,000 is to be held in escrow for a period over 18 months to accommodate any potential warranty and indemnity claims from SMN.

Conditions Precedent

The SSA is a conditional agreement, the completion of which is subject to a number of conditions being satisfied or (where relevant) waived, comprising:

- (a) All consents and approvals necessary, relevant or desired for the sale and purchase of the Shares (as defined in the SSA), being obtained without breaching any contract, agreement, arrangement, licence, approval, permit, law/statute or the ASX Listing Rules or agreement are granted and received either:
 - (i) without conditions or requirements; or
 - (ii) with conditions and requirements that are acceptable to the Vendor and (to the extent that they affect the Purchaser or AEM), to the Purchaser.
- (b) The Purchaser completing and being satisfied with the outcome of due diligence investigations (including financial, tax, legal and commercial due diligence investigations), on the Vendor, AEM and its business.
- (c) The obtaining of Shareholder approval required for the purposes of ASX Listing Rule 10.1 by the Company to the satisfaction of the ASX.
- (d) A binding agreement with a bank or other financier under which that financier agrees to provide on completion (subject only to such conditions as are acceptable to the Purchaser), all funds necessary for the Purchaser to purchase the Shares under this agreement or the Purchaser raising such funds necessary by way of a capital raising or similar method.
- (e) The HSBC Bank Canada or another financier agreeing to provide on completion (subject only to such conditions as are acceptable to the Purchaser), the same or substantially similar credit facilities to AEM necessary for AEM to operate its business.
- (f) AEM or the Purchaser confirming the employment of certain key employees to the satisfaction of the Purchaser.
- (g) AEM and David John Veitch entering into the Professional Services Agreement on terms acceptable to the Purchaser.
- (h) The Vendor, Purchaser and an escrow agent entering into an Escrow Agreement.
- (i) There being no material adverse change in AEM and/or its business, financial or trading position, or assets, liabilities or profitability or prospects of AEM, or any event reasonably likely to result in such a material adverse change since 31 September 2017.
- (j) There being no material breach, and no facts or circumstances that may reasonably be expected to lead to a material breach, of any warranties before completion.

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Purchase Price, Working Capital and Escrow

Under the SSA, the Purchaser has agreed to pay the Purchase Price, being C\$10,000,000 for all of the shares in AEM (C\$750,000 of which is to be held in escrow). The amount to be held in escrow may be used against claims for breached of warranties or to pay indemnity claims under the SSA.

Under the SSA, the Purchaser requires a minimum working capital in AEM of C\$5.6 million as at completion. The Board considers this to be a reasonable minimum working capital amount for AEM following the completion of the Proposed Transaction.

Warranties

Under the SSA, the Purchaser was provided a number of warranties in connection with the Proposed Transaction, including in relation to:

- (a) Title and capacity of the Vendor and AEM;
- (b) The reasonableness and accuracy of the financial information provided with respect to AEM;
- (c) The assets, property, intellectual property, and employees of AEM; and
- (d) AEM's compliance with applicable laws.

The Company/Purchaser was also provided with opportunity to conduct financial, legal and tax due diligence on AEM and its business. Any material adverse change in AEM or its prospects, or the discovery of any false or misleading warranty entitles the Purchaser to terminate the SSA.

13.3.3 Transitional Services

David Veitch had decided to retire from AEM following completion of the Proposed Transaction. Notwithstanding this decision, David Veitch has agreed (separately to the SSA), to provide hands on transitional services to the Purchaser and AEM for a period of at least 6 months following completion of the Proposed Transaction. A Professional Services Agreement has been executed between David Veitch and AEM with respect to the provision of these services.

The Board considers that the provision of these transitional services is an important part of ensuring the success of the Proposed Transaction.

13.3.4 Strategic Rationale for the Proposed Transaction and Key Advantages to Shareholders

As Shareholders are aware, SMN is a technology company focused on the development and commercialisation of its CVM™ technology. SMN has, to date, expended significant time and resources on research and development of its CVM™, and is now seeking to advance to the next phase of commercialisation.

AEM is the contract manufacturer of equipment for SMN. Pursuant to an existing agreement between SMN and AEM, AEM manufactures and provides technical support for sensors in the field of aviation to SMN, on which SMN on-sells to its customer base.

This transaction allows SMN to focus on commercialisation of the Company's products rather than building an independent platform as required for the Company, its customers and Shareholders. The Company's main undertaking will not change as a result of the Proposed Transaction. Rather, for the reasons set out above, the Transaction is expected to facilitate and expedite the Company's performance of its main undertaking.

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There are several other strategic reasons why the Company has determined to complete the Proposed Transaction, these key advantages include the following:

- (a) AEM is the contract manufacturer for SMN's proprietary CVM™ sensors and related equipment;
- (b) In August 2017, SMN signed its first commercial contract with Delta Airlines, the world's largest airline by market capitalisation, to produce thousands of sensors and related equipment for the Delta fleet. The contract puts the Company in a position to roll out the product to the global aerospace industry;
- (c) With the Delta contract executed and significant revenue for the company now proximate, SMN's aerospace customers require that the business vertically integrate to control engineering, manufacturing, research and development activities, quality control, accounting and sales functions;
- (d) AEM is known to the Company and provides a 'turnkey platform' for vertical integration. With the acquisition of AEM, SMN management's attention can be focused on commercialisation of its technology rather than having to divert it to the expensive and time consuming task of building a platform independent of AEM;
- (e) AEM sales functions have deep relationships with the largest aerospace Original Equipment Manufacturers which are also existing clients of SMN;
- (f) The acquisition allows SMN to control all decisions relating to design and development of SMN products during its current, critical, commercialisation phase;
- (g) AEM has invested millions of dollars in clean rooms, complex research and development efforts, dedicated engineering support and manufacturing know-how to SMN products. This transaction allows SMN to control and use this investment to the maximum benefit of Shareholders as it will not have to replicate this work for its own purposes; and
- (h) The acquisition is occurring at an attractive multiple of AEM's EBITDA.

For the reasons set out above, the board of SMN considers the acquisition to be in the best interests of all its Shareholders.

13.3.5 Potential Disadvantages and Risks for Shareholders

Potential disadvantages of the Transaction include:

- (a) Although the integration of AEM is expected to be an 'earnings per share accretive' acquisition, there is no certainty that the Proposed transaction will result in a financial benefit to the Shareholders. The performance of AEM following the completion of the Proposed Transaction is uncertain in the long term as there is no guarantee that existing contracts will be renewed or extended;
- (b) Notwithstanding that the businesses of AEM and SMN are complementary, integration of AEM may ultimately prove difficult and/or not produce the expected level of efficiencies;
- (c) Shareholders will also be exposed to the market risks currently faced by AEM, including risks associated with demand for its products and services, commercial and operation risk, client relationship risk and risks associated with loss of reputation and brand;
- (d) The existing staff of AEM are integral to the success of AEM so far, as AEM places reliance

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on a number of key staff members, there is risk associated with those staff members leaving their employment with AEM following the completion of the Proposed Transaction;

- (e) The impact of the Transaction on the Company's share price is uncertain.

In addition to the specific risks set out below, Shareholders should also be aware of the following general risks which may affect the ultimate success of the Proposed Transaction, EM may be affected by changes in economic conditions (generally or industry specific), general market risks and changed to the regulatory or legal framework within which it operates.

13.4 Application of Listing Rule 10.1

ASX Listing Rule 10.1 provides that an entity must ensure that it does not acquire a substantial asset from a related party of the entity without the approval of holders of the entity's ordinary securities. The votes of security holders who are parties to the transaction and their associates are not counted.

The rationale for ASX Listing Rule 10.1 is to protect security holders from a value-shifting transaction with a person in a position of influence being undertaken by a listed entity without the disinterested security holders having approved that transaction with the benefit of full information. The rule supplements the related party provisions of the Corporations Act, which do not apply to the Company.

For the purposes of this analysis, the existence of the Purchaser (being an interposed company between the Company and AEM is ignored), and the analysis is done on the basis of the ultimate effect of the Transaction rather than its legal structure (i.e. as if the Company was directly acquiring the shares in AEM).

The Company has procured an Independent Expert's Report on the fairness and reasonableness of the Proposed Transaction (which is set out below). The Independent Expert's Report was commissioned to assist the Shareholders make a decision with respect to the Proposed Transaction.

13.4.1 Related Parties

Ray Lewis is a director of SMN and is therefore a related party of SMN. Together with his associates, Ray Lewis also has a relevant interest (via his 50% shareholding in Tomtebo Holdings Corp.) in approximately 11% of the share capital of AEH (**Lewis Interest**). Conversely, through holding the Lewis Interest, Ray Lewis and his associates have a relevant interest in 11% of AEM.

Under the Proposed Transaction, Ray Lewis and his associates will, by implication, have an interest in the Proposed Transaction equal to C\$1.1 million (i.e. 11% of the Purchase Price).

David Veitch is a former director of SMN, who resigned in October 2016. Through his 50% shareholding in Wiltronics Holdings Ltd and wholly owned entity, Veitronics Holdings Ltd, David Veitch and his associates have a relevant interest in approximately 89% of the share capital of AEH (**Veitch Interest**). Conversely, through holding the Veitch Interest, David Veitch and his associates have a relevant interest in 89% of AEM.

Under the Proposed Transaction, David Veitch and his associates, by implication, have an interest in the Proposed Transaction equal to C\$ 8.9m (i.e. 89% of the Purchase Price). However, as David Veitch has not been a director of SMN for over a year, the Board is of the view that the provisions of ASX Listing Rule 10.1 should not apply to the Transaction to the extent that the acquisition relates to the Veitch Interest.

13.4.2 The acquisition of a substantial asset

An asset is treated as a substantial asset if its value or consideration for it is 5% or more of the listed company's equity interest as set out in the latest financial statements given to the ASX.

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SMN currently has \$2.6 million in equity interests, as set out in its latest accounts. The Proposed Transaction in light of the Lewis Interest, implies that an acquisition of a substantial asset has occurred from a related party - as the value of the consideration given to Ray Lewis and his associates via the Lewis Interest (C\$1.1m), will be equal to more than 5% of the equity interests of SMN.

Therefore, the effect of ASX Listing Rule 10.1 is that SMN may not complete the Transaction without Shareholder approval as it would effectively allow SMN to acquire the Lewis Interest in AEM from Ray Lewis (being a related party of SMN) and his associates without security holder approval. Although approval for the acquisition of the Veitch Interest in AEM is not strictly required under the ASX Listing Rules, the Company is effectively seeking security holder approval with respect to the entire Proposed Transaction.

13.5 Proposed Transaction at Arms' length

The Board is of the view that the Proposed Transaction is at arm's length, including for the following reasons:

- (a) David Veitch is not a person of influence in relation to SMN. He has not been a board member since 10 October 2016, and he is the effective majority holder of the interest in AEM which entitles him to make all of the decisions with respect to the Proposed Transaction.
- (b) The SSA includes a comprehensive list of warranties and indemnities which have been negotiated by the parties. Of the Purchase Price of C\$10 million, the sum of C\$750,000 is being held in escrow for a period over 18 months to accommodate any potential warranty and indemnity claims from SMN.
- (c) All interests in shares held by David Veitch (estimated to be 5.3 million shares or 5.1% of the share capital) in SMN will be subject to a voluntary holding restraint by SMN. The objective of this is to control and manage any large sell downs during the 12 month period following completion of the Transaction.
- (d) David Veitch is retiring from AEM and, subject to transitional handovers to the new CEO.
- (e) AEM is projected to contribute C\$2 million to the bottom line of SMN in financial year 2018. The purchase price of C\$10 million in cash is well within deal parameters for an acquisition multiple for similar transactions.
- (f) The capital raising by the Company to fund the Proposed Transaction has raised approximately A\$13 million from external investors. Approximately A\$10 million plus transaction expenses will be used as part of the Proposed transaction, this being approximately 7 to 8% of the market capitalisation of the Company.
- (g) It is not intended that the Board of the Company will change as a result of the Proposed Transaction.

13.6 Independent Expert's Report

The Company has engaged Grant Thornton for the purposes of preparing an Independent Expert's Report with respect to the proposed transaction in accordance with the ASX Listing Rules. Please refer to Annexure A for a copy of the Independent Expert's Report.

Subject to the matters set out in the Independent Expert's Report, Grant Thornton has formed an opinion that the Proposed Transaction is fair and reasonable to the holders of the Company's ordinary securities whose votes are not to be disregarded.

The Independent Expert's Report will be available on the Company's website and a hard copy will be made

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available to shareholders on request.

13.6.1 Fairness of the Transaction

In assessing the fairness of the Proposed Transaction, Grant Thornton considered a number of key factors, including the Purchase Price of C\$10 million is within the range of their assessed valuation of AEM.

13.6.2 Reasonableness of the Transaction

In assessing the reasonableness of the Proposed Transaction, Grant Thornton considered a number of key factors, including the following advantages:

- (a) Vertical integration – As a result of the entering into the Delta Agreement, SMS is on the cusp of commencing commercialisation of its CVM™ Technology which is expected to represent a significant price catalyst for SMS Shareholders. AEM is SMS’s aerospace-certified contract manufacturer and responsible of critical R&D on the sensors underneath the CVM™ Technology. Upon completion of Proposed Transaction, SMS will be vertically integrated with AEM which will ensure control over the manufacturing process of the sensors at a critical stage of SMS’s life cycle and continuation of product/IP development;
- (b) De-risk SMS’ market proposition – If AEM is acquired by other parties which may decide to divert AEM’s focus away from the SMS products, it may significantly weaken the go-to-market strategy of SMS and adversely affect its future prospects and the ability to deliver into the Delta Agreement in a timely manner. Under such circumstances, the SMS management team would divert its attention to building a manufacturing platform alternative to AEM rather than focusing on the commercialisation of its proprietary technology.
- (c) Cross selling opportunities – AEM has an established reputation in the manufacturing of aerospace components for being a reliable and trustworthy contract manufacturer, and leader in innovation and new products development. As a result, AEM has built strong relationships with many Original Equipment Manufacturers (“OEMs”) and a global network of aircraft and component dealers which could be leveraged-off in conjunction with SMS’s pre-existing relationships in the aerospace industry to cross-sell products and significantly enhance the post transaction market positioning of the enlarged SMS.
- (d) Barriers to entry – AEM holds key certifications from Canadian and international authorities which allow it to supply manufactured products and repair services to the highly regulated aerospace industry. These certifications are difficult to attain which assists in preserving AEM’s market positioning in an industry dominated by global, large corporations.
- (e) Cash flow generation – AEM has been generating robust EBITDA margin and free cash flows for a number of years as an established player in the aerospace industry. The positive cash flows generated by AEM will strengthen the financial position of SMS in the short term before the Company is expected to commence generating revenue in conjunction with the Delta Agreement (expected in the second half of FY18).
- (f) Ramp-up in SMS products – In Grant Thornton’s valuation assessment, they have mainly relied on the historical and FY 2018 financial performance of AEM which includes minimal revenue in relation to the sale of the sensors to SMS. Based on discussions with SMS and AEM, they understand that this revenue line is expected to ramp-up significantly going forward in conjunction with SMS commencing to deliver into the Delta Agreement. However, as at the date of this report, it is difficult to forecast on a reasonable basis the timing and volumes of this revenue and accordingly they have undertaken a conservative valuation of AEM based only on the existing business excluding the Delta Agreement.

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In assessing the reasonableness of the Proposed Transaction, Grant Thornton considered a number of key factors, including the following disadvantages:

- (a) Transition of Senior Management – Veitch is the founder and together with Lewis they have been the driving force behind the success of AEM. After the Proposed Acquisition and in an orderly manner, both Veitch and Lewis are expected to transition out of AEM over the short to medium term. In particular Grant Thornton note the following:
 - (i) Veitch will step down from his role but he will continue to act as transitional president of AEM and to perform certain tasks and responsibility to mentor and train MR Brian Wall to replace him as President based on the terms of the Service Agreement (18 months after completion). AEM has been working on the succession planning in respect to Veitch for a period of time, including the appointment of Mr Brian Wall a Vice-President of Operations in August 2015 to transition operation responsibilities historically held by Veitch.
 - (ii) AEM hired a sales manager in April 2016 to begin to transition sale and marketing responsibilities held by Lewis. Whilst Lewis is stepping down from the SMS Board of Directors, he will remain in his position as Head of Business Development for a period of at least one year, to be extended to two years as mutually agreed with SMS.

Whilst AEM has been working on a transition plan for Veitch and Lewis for a period of time, there is always the risk that the transition may create some abnormal customer attrition.

- (b) Customer concentration – AEM’s revenue is highly concentrated with excess of 80% being generated on average in the last three years from the top-10 customers. Whilst this is usually a significant risk for any business, in the case of AEM it is mitigated by the tenure of most of the top-10 customers and by the certified nature of the products manufactured by AEM which makes the switching costs for its customers significant and time consuming.
- (c) Risk attached to the Cobham contract – AEM commenced operations in 2009, when Northern Airborne Technology (“NAT”) elected to close its manufacturing operations in Canada. As a result, Veitch led a management buyout to take over the manufacturing facility of NAT. NAT was a wholly owned subsidiary of Cobham, and commenced operations with a team of 49 people and a contract to manufacture aerospace components for Cobham. Cobham has been a customer of AEM since and currently there are a number of contractual relationships between the two parties due to expire in 2020. Based on discussions with the SMS management team, Grant Thornton understand that Cobham is supportive of the change of ownership of AEM, however, Grant Thornton note that the future financial performance of AEM could be materially adversely affected if the contractual relationships with Cobham are not renewed on expiry. However, Grant Thornton note that it would not be easy for Cobham to change contract manufacturer due to the internal knowhow developed by AEM over many years around the suite of Cobham products.
- (d) Potential overhang on the stock price – AEH, an entity controlled by Veitch and Lewis, owns a 3.7% interest in the share capital of SMS (before the Private Placement). Whilst based on the terms of the SSA, all SMS shares indirectly held by Veitch and Lewis will be subject to a voluntary holding lock by SMS, preventing any large sell downs during the 12 month period. This may still create some overhang risk on the trading prices of SMS following completion of the lock-up period. We note that the average total monthly trading volume of SMS has been c.4.3 million shares over the last twelve months (or circa 4% of the issued capital before the Private Placement).

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- (e) Exchange rate movements (“FX”) – AEM makes a significant portion of its sales in US\$. We note that in the last three years, circa 90% of the revenue and accounts receivables were in US\$ whereas only circa 60% of the accounts payables are in US\$. AEM does not currently adopt hedging policies to mitigate the impact of exchange rate fluctuations which may cause volatility in the financial results. However, Grant Thornton note that Grant Thornton have been instructed that SMS’s CEO, and incoming Exec-Director directly overseeing AEM – are highly experienced with all products and strategies specific to FX.

13.6.3 Reasonableness conclusion

Based on the qualitative factors identified above, it is Grant Thornton’s opinion that the Proposed Transaction is REASONABLE to the Non-Associated Shareholders.

13.6.4 Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Proposed Transaction is FAIR AND REASONABLE to the Non-Associated Shareholders in the absence of a superior alternative proposal emerging.

13.7 Independent Directors’ recommendation

The Independent Directors of the Company have considered the Proposed Transaction and the conclusions of the Independent Expert’s Report. In their opinion, they key benefits of the Transaction outweigh the potential disadvantages and risks associated with the transaction.

The Independent Directors of the Company therefore recommend Shareholders vote in favour of Resolution 9. Ray Lewis does not consider himself justified in making a recommendation with respect to this Resolution as he has an interest in the outcome of the Resolution, as he is a related party of AEH and will receive a financial benefit from the Proposed Transaction through his indirect ownership of AEM.

GLOSSARY

In this Notice of Meeting and Explanatory Statement the following expressions have the following meanings:

| | |
|--|---|
| "Articles of Association" or "Articles" | The Company's articles of association, as amended from time to time. |
| "ASX" | ASX Limited (ACN 008 624 691). |
| "ASX Listing Rules" or "Listing Rules" | The official Listing Rules of ASX as amended from time to time. |
| "Board" | The board of Directors of the Company. |
| "Director" | A director of Structural Monitoring Systems. |
| "Meeting" or "General Meeting" | The 2017 General Meeting of the Company to be held on [Date] 2017. |
| "Notice of Meeting" | The notice convening the Meeting, which accompanies this Explanatory Statement. |

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| | |
|--|---|
| "Share" | A fully paid ordinary share of £0.0005 each in the capital of the Company and, where the context requires, means a CHESS depository interest. |
| "Resolutions" | The proposed resolutions set out in the Notice of Meeting. |
| "Shareholder" | The registered holder of one or more Shares. |
| "Structural Monitoring Systems", "SMN" or "Company" | Structural Monitoring Systems plc, registered in England and Wales with Company Number 4834265 (ARBN: 106 307 322). |
| "ADST" | Western Standard Time (Australia). |
| "\$" or "A\$" | Australian dollars. |
| "C\$" | Canadian dollars. |
| "£" | British pounds. |

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SCHEDULE 1– TERMS OF THE PERFORMANCE RIGHTS

(Resolution 6, 7 and 8)

The Performance Rights will be issued under and in accordance with the terms and conditions of the Plan and the following terms.

Terms of Performance Rights

1. The Performance Rights are non-transferable.
2. The Performance Rights do not confer any entitlement to attend or vote at meetings of the Company, to dividends, to participation in new issues of securities or entitlement to participate in any return of capital.
3. The Performance Rights vest upon the satisfaction of the relevant performance hurdle within 3 years of the issue of the Performance Rights.
4. The Performance Rights lapse if the performance hurdle is not satisfied within 3 years of the issue of the Performance Rights except as otherwise provided for in the terms and conditions of the Plan.
5. Upon vesting, 1 ordinary share will be issued for every 1 Performance Right on the payment of the par value of the ordinary share, being £0.0005 pence per ordinary share by the holder. The ordinary shares will rank equally in all respects with the existing ordinary shares.
6. In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the vesting date, the number of Performance Rights, the share price relevant to the performance hurdle and any exercise price may be reconstructed in accordance with the terms and conditions of the Plan.

STRUCTURAL MONITORING SYSTEMS PLC

CDI VOTING INSTRUCTION FORM

Structural Monitoring Systems plc
ABRN 106 307 322

Each CHES Depository Interest ("CDI") is equivalent to one Ordinary Share in the Company, so that every 1 CDI that you hold entitles you to 1 vote. You can vote by completing, signing and returning your CDI Voting Instruction Form. This form gives voting instructions to CHES Depository Nominees Pty Ltd, which will vote the underlying shares on your behalf. You need to return the form by no later than 3:45pm ADST on 5 December 2017.

I/We

being a holder of CDIs of Structural Monitoring Systems plc (the "Company") hereby direct CHES Depository Nominees Pty Ltd to vote the shares underlying my/our holding at the Annual General Meeting of the Company to be held at at Holding Redlich, Level 65, 19-29 Martin Place, Sydney, NSW 2000 on 7 December 2017 at 3:45pm ADST and at any adjournment thereof.

By executing this CDI Voting Form the undersigned hereby authorises CHES Depository Nominees Pty Ltd to appoint such proxies or their substitutes to vote in their discretion on such business as may properly come before the Meeting. Please indicate with an "X" in the appropriate boxes below how CHES Depository Nominees Pty Ltd should vote and then sign in the space provided below. Please note, if you mark the Abstain box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted.

The Chair of the Meeting intends to vote any undirected proxies in favour of all Resolutions.

Voting on Business of the Annual General Meeting

| | | FOR | AGAINST | ABSTAIN |
|---------------|--|--------------------------|--------------------------|--------------------------|
| Resolution 1 | Re-appointment of R. Michael Reveley | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 2 | Re-appointment of William Rouse | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 3 | Re-appointment of Auditors | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 4 | Ratification of prior issue of Securities | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 5 | Approval of issue of Securities to David Veitch | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 6 | Approval of issue of Securities to William Rouse | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 7 | Approval to issue Performance Rights to Mr Robert Michael Reveley | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 8 | Approval to issue Performance Rights to Mr Andrew Chilcott | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 9 | Approval to issue Performance Rights to Mr William Rouse | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 10 | Approval to issue Shares to Mr Robert Michael Reveley | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 11 | Approval to issue Shares to Mr Toby Chandler | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 12 | Approval of Proposed Transaction for the purposes of ASX Listing Rules | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your Shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____ %

Please return this Proxy Form to the Company Secretary, Structural Monitoring Systems plc, Suite 39, 1 Freshwater Parade, Claremont, Western Australia, or by post to PO Box 661 Nedlands WA 6909 or by fax to + 61 8 9467 6111 by 3:45pm ADST on [Date] 2017.

Signed this _____ day of _____ 2017.

By:

Individuals and joint holders

Companies (affix common seal if appropriate)

Signature

Director

Signature

Director/Secretary

Signature

Sole Director and Sole Secretary

Annexure A – Independent Expert’s Report



Grant Thornton

An instinct for growth™

Structural Monitoring Systems PLC

Independent Expert's Report and Financial Services Guide

21 November 2017

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposed Transaction is FAIR AND REASONABLE to the Non-Associated Shareholders.

The Independent Directors
Structural Monitoring Systems Plc
Suite 39, 1 Freshwater Parade
Claremont, WA, 6010

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21 November 2017

Dear Independent Directors

Independent Expert's Report and Financial Services Guide

Introduction

Structural Monitoring Systems Plc ("SMS" or the "Company") is a company listed on the Australian Securities Exchanges ("ASX") which has developed a proprietary technology "Comparative Vacuum Monitoring" ("CVM™") to provide real time monitoring of metal fatigue and structural faults in metal and composite materials. The CVM™ technology is used in a large array of industries including aviation, civil, infrastructure, transport, defence and construction.

SMS recently announced that it had executed the world's first commercial agreement in relation to the supply and use of the CVM™ technology with Delta Air Lines, Inc. ("Delta") which represents a key milestone for the Company as it can now move from the research and development phase to the commercialisation phase of the CVM™ technology ("Delta Agreement").

Anodyne Electronics Manufacturing Corporation ("AEM") is a product manufacturer of electronics for the aerospace industry assisting customers in North America and internationally. AEM manufacture an extensive range of products through contract manufacturing arrangements, and its own proprietary design and brand. AEM owns a manufacturing facility in Kelowna, British Columbia. AEM's core competencies are in relation to the design, manufacture and repair of aerospace electronics including intercom systems, audio amplifiers, aircraft audio systems, illuminated panels and display products, and external PA systems.

In 2011, AEM formed a partnership with SMS whereby AEM became the exclusive designer and manufacturer of the sensors which are the critical component of the CVM™ technology.

On 8 November 2017, SMS announced that it had executed a Share Sale Agreement ("SSA") with Anodyne Electronics Holding Corp. ("AEH")¹ to acquire all the issued capital of AEM for a total cash consideration of C\$10 million² ("Proposed Transaction").

¹ AEH main assets are 100% of the issued capital of AEM and an interest of circa 3.7% of the issued capital of SMS. AEH is controlled by Mr Dave Veitch ("Veitch") and his associates (89%) and Mr Ray Lewis ("Lewis") and his associates (11%).

² A\$10.23 million based on the exchange rate of A\$1.02 per C\$1 as at 8 November 2017.

Set out below is a summary of the key terms of the Proposed Transaction:

- Total purchase price of C\$10 million on a debt free cash free basis (“Purchase Price”). The Purchase Price is payable as outlined below:
 - C\$9.250 million on completion of the Proposed Transaction.
 - C\$0.750 million in three equal instalments of C\$0.250 million every 6 months following completion of the Proposed Transaction subject to no warranty or indemnity claims being made by SMS under the SSA and Veitch and its associates³ performing its obligations under the service agreement as described below.
- The total purchase price is subject to a working capital completion adjustment calculated as the difference (positive or negative) between the net working capital⁴ at completion and the agreed target net working capital of C\$5.6 million.
- In conjunction with the Proposed Transaction, SMS has entered into a service agreement (“Service Agreement”) with Veitch whereby Veitch has agreed to act as transitional president of AEM and to perform certain tasks and responsibility to mentor and train Mr Brian Wall to replace him as President. The Service Agreement is for a period of 18 months after completion of the Proposed Transaction.
- All shares indirectly held by Veitch and Lewis in SMS via AEH⁵ will be subject to a voluntary holding lock by SMS, preventing any large sell downs without prior approval by SMS during the 12 month period following completion of the Proposed Transaction.
- The Proposed Transaction is subject to customary conditions precedent including approval by SMS Shareholders of the Proposed Transaction and key employees of AEM entering into employment agreements or a letter confirming employment with SMS.

In conjunction with the Proposed Transaction, SMS completed a private placement with institutional investors to raise A\$13 million (before costs) at an issue price of A\$1.25 per share (“Private Placement”). A large component of the money raised will be used to fund the cash Purchase Price whereas the balance will be retained to increase the cash reserves of the business.

Veitch and Lewis own 89% and 11% respectively of the voting shares in AEM. Lewis is a Director⁶ of SMS and of AEM, and accordingly he is considered a related party in accordance with the Corporations Act.

The Independent Directors of the Company unanimously recommend shareholders vote in favour of the resolutions set out in this Notice of Meeting, and in particular to approve the Proposed Transaction, for the reasons detailed in the Explanatory Memorandum.

³ Including Wiltronics Holdings Limited which is a company controlled by Mr Dave Veitch.

⁴ Defined as current assets less current liabilities.

⁵ AEH holds circa 3.7% of the issued capital of SMS before the Private Placement.

⁶ Veitch was previously a Director of SMS and he resigned on 10 October 2016 and was replaced by Lewis.

Purpose of the report

The cash consideration to be received by Mr Lewis (circa C\$1.1 million⁷) exceeds 5% of the latest reported net assets of SMS as at 30 June 2017 (circa A\$2.6 million). Accordingly, the Proposed Transaction constitutes an acquisition of a substantial asset from a related party in accordance with ASX Listing Rule 10.1. Consequently, the Independent Directors have commissioned Grant Thornton Corporate Finance Pty Limited (“Grant Thornton Corporate Finance” or “GTCF”) to prepare an independent expert’s report to assess whether the Proposed Transaction is fair and reasonable to the SMS Non-Associated Shareholders (i.e. shareholders not associated with Mr Lewis) for the purposes of Chapter 10 of the ASX Listing Rules.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposed Transaction is FAIR AND REASONABLE to the Non-Associated Shareholders.

In forming its opinion, Grant Thornton Corporate Finance has considered whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders and other quantitative and qualitative considerations.

Fairness assessment

In accordance with the requirements of the Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 *Contents of expert reports* (“RG 111”), in forming its opinion in relation to the fairness of the Proposed Transaction to the Non-Associated Shareholders, Grant Thornton Corporate Finance has compared the Purchase Price to the fair market value of AEM on a control basis.

The following table summarises our fairness assessment:

| Fairness assessment \$ CAD | Section Reference | Low | High |
|--|----------------------|------------|-------------|
| Fair market value of AEM | 5.2 | 9,574,638 | 11,730,388 |
| Purchase Price | | 10,000,000 | 10,000,000 |
| Premium/ (discount) implied in the Purchase Price | | 425,362 | (1,730,388) |
| Premium/ (discount) (%) implied in the Purchase Price | | 4.4% | (14.8%) |

Source: GTCF Calculations

The Purchase Price of C\$10 million is within the range of our assessed valuation of AEM. Accordingly, we conclude that the Proposed Transaction is FAIR to SMS’s Non-Associated Shareholders.

We note that our valuation assessment of AEM is based on the concept of fair market value and accordingly, we have not included any special/unique value which may accrue to SMS as a result of the Proposed Transaction.

Reasonableness assessment

We note that given the Proposed Transaction is fair to the Non-Associated Shareholders, it is also reasonable. Notwithstanding this, we have also considered the following likely advantages, disadvantages and other factors associated with the Proposed Transaction.

⁷ Assuming no working capital or other adjustments to the Purchase Price.

Advantages

- *Vertical integration* – As a result of the entering into the Delta Agreement, SMS is on the cusp of commencing commercialisation of its CVM™ Technology which is expected to represent a significant price catalyst for SMS Shareholders. AEM is SMS's aerospace-certified contract manufacturer and responsible of critical R&D on the sensors underneath the CVM™ Technology. Upon completion of the Proposed Transaction, SMS will be vertically integrated with AEM which will ensure control over the manufacturing process of the sensors at a critical stage of SMS's life cycle and continuation of product/IP development.
- *De-risk SMS' market proposition* – If AEM is acquired by other parties which may decide to divert AEM's focus away from the SMS products, it may significantly weaken the go-to-market strategy of SMS and adversely affect its future prospects and the ability to deliver into the Delta Agreement in a timely manner⁸. Under such circumstances, the SMS management team would divert its attention to building a manufacturing platform alternative to AEM rather than focusing on the commercialisation of its proprietary technology.
- *Cross selling opportunities* – AEM has an established reputation in the manufacturing of aerospace components for being a reliable and trustworthy contract manufacturer, and leader in innovation and new products development. As a result, AEM has built strong relationships with many Original Equipment Manufacturers ("OEMs") and a global network of aircraft and component dealers which could be leveraged-off in conjunction with SMS's pre-existing relationships in the aerospace industry to cross-sell products and significantly enhance the post transaction market positioning of the enlarged SMS.
- *Barriers to entry* – AEM holds key certifications from Canadian and international authorities which allow it to supply manufactured products and repair services to the highly regulated aerospace industry. These certifications are difficult to attain which assists in preserving AEM's market positioning in an industry dominated by global, large corporations.
- *Cash flow generation* – AEM has been generating robust EBITDA⁹ margin and free cash flows for a number of years as an established player in the aerospace industry. The positive cash flows generated by AEM will strengthen the financial position of SMS in the short term before the Company is expected to commence generating revenue in conjunction with the Delta Agreement (expected in the second half of FY18).
- *Ramp-up in SMS products* – In our valuation assessment, we have mainly relied on the historical and FY 2018 financial performance of AEM which includes minimal revenue in relation to the sale of the sensors to SMS. Based on discussions with SMS and AEM, we understand that this revenue line is expected to ramp-up significantly going forward in conjunction with SMS commencing to deliver into the Delta Agreement. However, as at the date of this report, it is difficult to forecast on a reasonable basis the timing and volumes of this revenue and accordingly we have undertaken a conservative valuation of AEM based only on the existing business excluding the Delta Agreement. For completeness, we note that we have been provided with certain high-level forecasts in relation to revenue and EBITDA expected to be generated by AEM over the next three years in conjunction with the SMS products. If these projections are taken into account to supplement the existing business of AEM, they will generate significant uplift to our valuation of AEM.

⁸ Under these circumstances, the timing of the products delivery into the Delta Agreement will be delayed.

⁹ Earnings before interest, tax, depreciation and amortisation

- *Synergies* – The SMS management team has identified some potential cost synergies as a result of the Proposed Transaction by potentially utilising AEM's sales team, back-office, IT and other processing systems to streamline the roll-out of the CVM™ Technology. Given that this is only preliminary in nature at this point in time, we have not considered it in our valuation assessment; however future financial benefits may accrue to the Non-Associated Shareholders as a result.

Disadvantages

- *Transition of Senior Management* – Veitch is the founder and together with Lewis they have been the driving force behind the success of AEM. After the Proposed Acquisition and in an orderly manner, both Veitch and Lewis are expected to transition out of AEM over the short to medium term. In particular we note the following:
 - Veitch will step down from his role but he will continue to act as transitional president of AEM and to perform certain tasks and responsibility to mentor and train MR Brian Wall to replace him as President based on the terms of the Service Agreement (18 months after completion). AEM has been working on the succession planning in respect to Veitch for a period of time, including the appointment of Mr Brian Wall a Vice-President of Operations in August 2015 to transition operation responsibilities historically held by Veitch.
 - AEM hired a sales manager in April 2016 to begin to transition sale and marketing responsibilities held by Lewis. Whilst Lewis is stepping down from the SMS Board of Directors, he will remain in his position as Head of Business Development for a period of at least one year, to be extended to two years as mutually agreed with SMS.

Whilst AEM has been working on a transition plan for Veitch and Lewis for a period of time, there is always the risk that the transition may create some abnormal customer attrition.

- *Customer concentration* – AEM's revenue is highly concentrated with excess of 80% being generated on average in the last three years from the top-10 customers. Whilst this is usually a significant risk for any business, in the case of AEM it is mitigated by the tenure of most of the top-10 customers and by the certified nature of the products manufactured by AEM which makes the switching costs for its customers significant and time consuming.
- *Risk attached to the Cobham contract* – AEM commenced operations in 2009, when Northern Airborne Technology ("NAT") elected to close its manufacturing operations in Canada. As a result, Veitch led a management buyout to take over the manufacturing facility of NAT. NAT was a wholly owned subsidiary of Cobham, and commenced operations with a team of 49 people and a contract to manufacture aerospace components for Cobham¹⁰. Cobham has been a customer of AEM since and currently there are a number of contractual relationships between the two parties due to expire in 2020. Based on discussions with the SMS management team, we understand that Cobham is supportive of the change of ownership of AEM, however, we note that the future financial performance of AEM could be materially adversely affected if the contractual relationships with Cobham are not renewed on expiry. However, we note that it would not be easy for Cobham to change contract manufacturer due to the internal knowhow developed by AEM over many years around the suite of Cobham products.

¹⁰ Cobham is a global technology company operating in the aviation, maritime and manufacturing sectors. Cobham is listed on the main market in London and it has a market capitalisation of circa £3.15 billion.

An instinct for growth™

- *Potential overhang on the stock price* – AEH, an entity controlled by Veitch and Lewis, owns a 3.7% interest in the share capital of SMS (before the Private Placement). Whilst based on the terms of the SSA, all SMS shares indirectly held by Veitch and Lewis will be subject to a voluntary holding lock by SMS, preventing any large sell downs during the 12 month period. This may still create some overhang risk on the trading prices of SMS following completion of the lock-up period. We note that the average total monthly trading volume of SMS has been c.4.3 million shares over the last twelve months (or circa 4% of the issued capital before the Private Placement).
- *Exchange rate movements (“FX”)* – AEM makes a significant portion of its sales in US\$. We note that in the last three years, circa 90% of the revenue and accounts receivables were in US\$ whereas only circa 60% of the accounts payables are in US\$. AEM does not currently adopt hedging policies to mitigate the impact of exchange rate fluctuations which may cause volatility in the financial results. However, we note that we have been instructed that SMS’s CEO, and incoming Exec-Director directly overseeing AEM – are highly experienced with all products and strategies specific to FX.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the **Proposed Transaction is REASONABLE** to the Non-Associated Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the **Proposed Transaction is FAIR AND REASONABLE** to the Non-Associated Shareholders in the absence of a superior alternative proposal emerging.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to vote in favour of the Proposed Transaction is a matter for each Non-Associated Shareholder to decide based on their own views of the value of AEM and expectations about future market conditions, AEM’s performance, risk profile and investment strategy. If Non-Associated Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

Yours faithfully,
GRANT THORNTON CORPORATE FINANCE PTY LTD



ANDREA DE CIAN
Director



JANNAYA JAMES
Director

21 November 2017

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by SMS to provide general financial product advice in the form of an Independent Expert's Report in relation to the Proposed Transaction. This report is included in SMS's notice of meeting.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in our report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the report, Grant Thornton Corporate Finance will receive fees from SMS in the order of A\$35,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of SMS and AEM in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC") ("RG 112"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with SMS or AEM (and

associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

We note that Grant Thornton Canada has undertaken certain high level review of the historical financial performance of AEM. However, we note that Grant Thornton Canada is a separate independent firm from Grant Thornton Australia in addition Grant Thornton Canada was not in the discussion in relation to the commercial terms of the Proposed Transaction or negotiations with the Vendor. The team members of Grant Thornton Australia involved in the preparation of the IER are completely separate from the team members of Grant Thornton Canada who were involved in the review of the historical financial performance of AEM. In our opinion, Grant Thornton Corporate Finance is independent of SMS, AEM, their Directors and all other relevant parties of the Proposed Transaction.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the Target's Statement should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act 2001.

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1 Purpose and scope of the report

1.1 Purpose

Chapter 10 of the ASX Listing Rules – Transactions with persons in a position of influence

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire or dispose of a substantial asset from a related party or a substantial holder.

ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is 5% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX.

In regards to the Proposed Transaction, we note that Lewis is a Director of AEM and he indirectly via AEH owns circa 11% of the AEM common shares. He is also a Director of SMS and accordingly considered a related party in accordance with the Corporations Act.

The cash consideration to be received by Lewis (circa C\$1.1 million¹¹) represents more than 5% of the latest shareholders' equity of SMS as at 30 June 2017 and therefore it constitutes an acquisition of a "substantial asset" from a related party for the purposes of ASX Listing Rules.

ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the non-associated shareholders.

Accordingly, the Independent Directors have requested Grant Thornton Corporate Finance to prepare an independent expert's report stating, whether in its opinion, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders for the purposes of ASX Listing Rule 10.1.

1.2 Basis of assessment

Grant Thornton Corporate Finance has had regard to RG 111 in relation to the content of its independent expert report and RG76 in relation to related party transactions. RG76 largely refers to RG111 in relation to the approach to related party transactions.

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG 111 also regulates independent expert's reports prepared for related party transactions in clauses 52 to 63. RG 111 notes that an expert should focus on the substance of the related party transaction, rather than the legal mechanism and, in particular where a related party transaction is one component of a broader transaction, the expert should consider what level of analysis of the related party aspect is required.

¹¹ Assuming no working capital adjustment at completion.

We note that RG111 clause 56 states the following:

RG 111.56 Where an expert assesses whether a related party transaction is 'fair and reasonable' (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1), this should not be applied as a composite test—that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal, as we do not consider this provides members with sufficient valuation information (See Regulatory Guide 76 Related party transactions (RG 76) at RG 76.106–RG 76.111 for further details).

Accordingly, in the consideration of the Proposed Transaction, the expert should undertake a separate test of the fairness and then analyse the advantages and disadvantages for the Non-Associated Shareholders.

RG 111 notes that a related party transaction is:

- Fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.
- Reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should vote in favour of the transaction.

In considering the fairness of the Proposed Transaction, we have compared the fair market value of AEM to the Purchase Price.

In considering whether the Proposed Transaction is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Proposed Transaction is fair.
- The implications to SMS and the Non-Associated Shareholders if the Proposed Transaction is not approved.
- Other likely advantages and disadvantages associated with the Proposed Transaction as required by RG111.
- Other costs and risks associated with the Proposed Transaction that could potentially affect the Non-Associated Shareholders.

1.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Proposed Transaction with reference to the RG112.

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

We note that Grant Thornton Canada has undertaken certain high level review of the historical financial performance of AEM. However, we note that Grant Thornton Canada is a separate independent firm from Grant Thornton Australia in addition Grant Thornton Canada was not involved in the discussion in relation to the commercial terms of the Proposed Transaction or negotiations with the Vendor. The team members of Grant Thornton Corporate Finance involved in the preparation of the IER are completely separate from the team members of Grant Thornton Canada who were involved in the review of the historical financial performance of AEM. In our opinion, Grant Thornton Corporate Finance is independent of SMS, AEM, their Directors and all other relevant parties of the Proposed Transaction.

1.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting dated on or around 21 November 2017 in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Transaction. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to the Non-Associated Shareholders as a whole. We have not considered the potential impact of the Proposed Transaction on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual shareholders.

The decision of whether or not to vote in favour of the Proposed Transaction is a matter for each SMS Shareholder based on their own views of the value of SMS and expectations about future market conditions, SMS's performance, their individual risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.



2 Industry sector profile

AEM operates in the aerospace and electronics manufacturing industry, where it designs and manufactures electronics for the aerospace industry such as avionics, intercom systems, audio amplifiers, aircraft audio systems and many more products. The Company also offers repairs and contract manufacturing.

Accordingly, we have focused this section of our report on the international aircraft manufacturing sector, including the manufacturing of electronics fitted in aircraft (“avionics”).

2.1 Introduction

2.1.1 Overview of aircraft manufacturing industry

The global manufacturing industry for medium to large passenger and freight aircraft is dominated by US-based Boeing and French-based Airbus. In addition to these two players, there are various other companies producing smaller commercial aircraft, helicopters and other aircraft types. These companies rely on a system of parts manufacturers to supply a wide range of components within a system of strict product regulations and certifications. The supply chain is a tiered system, with different levels of complexity and stages of assembly. In this system, Tier 1 includes systems and aerostructure suppliers; Tier 2 principal component manufacturers; and Tier 3 sub-component manufacturers. Considering the long-life of aircraft assets and the large upfront capital expenditure required, fleet manufacturing creates a long-term pipeline of demand for manufacturing. Therefore, supply arrangements are often long-term contracts with key suppliers, where product development effort and risks are shared. Suppliers often manufacture according to specific aircraft / airline standards. At the same time, they must meet industry and state product regulations and hold a number of certifications which are both costly and difficult to obtain.

The aircraft, engine and parts manufacturing industry in Canada encompasses around 440 businesses, which in 2017 realised total revenues of C\$21.2bn and a profit of C\$1.1bn in 2017. This industry has been growing at an average annual growth rate of 5.4% between 2012 and 2017. Industry concentration is moderate to high. The three largest players are Bombardier Inc. (with a market share of 37.4% in 2017), United Technologies Corporation (26.7%) and Bell Helicopter Textron Inc. (7.3%). The Canadian industry focuses on manufacturing business aircraft and commercial planes with less than 150 seats, civil helicopters, regional and small engines and various aerospace components. Total production was segmented into aircraft and aircraft structures (making up circa 46.8% of products in 2017), aircraft components and other parts (36.6%) and aircraft engines (16.6%). Factors like lower aircraft demand after years of high order numbers and currently lower oil price levels have somewhat reduced the need for new, more fuel-efficient aircraft. Over the next five years to 2022, IBISWorld expects industry revenue to increase at an annualised growth rate of 5.1% to a total of \$27.2 billion. Bombardier as the largest player realised revenues of approximately C\$8 billion in 2017. The company focuses on the civilian aircraft market and is expected to expand its offering with the development of the Global 7000 and 8000 business jets.¹²

2.1.2 Aircraft fleet growth

The aircraft manufacturing market is primarily driven by the growth in the global aircraft fleet. In line with the growing demand for air transport, both Airbus' and Boeing's numbers of delivered aircraft has

¹² IBISWorld Industry Report 33641aCA: "Aircraft, Engine & Parts Manufacturing in Canada" ("IBIS Report 2017"), May 2017, p. 3-4, 21.



historically grown strongly. At the beginning of 2017, Airbus had delivered 20,500 new aircraft (i.e. passenger aircraft above 100 seats and freighter aircraft above 10 tonnes). The company expects to reach 34,900 new deliveries by 2036. Boeing similarly forecasts the number of jet airplanes to reach around 47,000 airplanes by 2036, reflecting an average annual growth rate of 3.3%. Both companies expect that around 40% of these deliveries account for replacement and 60% for growth. Furthermore, 40% of these new aircraft will be delivered to Asia-Pacific as the largest growth region, with an additional 40% being delivered to airlines in Europe and North America combined.¹³

2.2 Drivers of air travel and aircraft manufacturing demand

Demand for air travel by consumers

The demand for passenger or freight aircraft is driven by the demand for air travel and transport of goods. Air transport is a growth market, which experienced more than 60% growth over the last ten years or on average 6.2% per year for the past five years.¹⁴ According to Airbus research, traffic (measured in revenue passenger kilometres or RPK) is forecast to grow from 7 trillion RPK in 2016 to 16.5 trillion PRK in 2036. Air traffic is expected to continue to double every 15 years, with growth mostly being driven by the Asia-Pacific region. By 2036, Asia-Pacific will account for 41% of the demand, with the US and Europe together representing 36%.¹⁵ Low air fares, higher living standards with a growing middle class in large emerging markets and the growth of travel expense relative to total consumer spending in major economies are all driving the strong demand for air travel.¹⁶ Overall Airbus expects the global annual air traffic to continue to grow at around 4.4%.¹⁷

Growing demand for air travel has also led to increased efficiency in aircraft use by higher load factors (of currently at an all-time high of over 80%), bigger average aircraft sizes and increased average utilisation levels.¹⁸

Government spending and defence demand

Governments provide substantial assistance to industry operators through investments, tax incentives and loans. They also buy industry products for defence, security and public service operations, with higher government spending benefitting the aerospace parts manufacturing industry. The Canadian manufacturer market is exposed to the Canadian and also US defence spending.¹⁹

Global GDP, income growth and regional factors

GDP remains an important driver for air transport.²⁰ The total value of world trade is an indicator of overall globalisation, which promotes more international travel. The total value of world trade is expected to grow in 2017 and beyond. Regarding the manufacturing industry, growth is typically in line with the overall economy and thus GDP growth.²¹

¹³ Airbus: Global Market Forecast – Growing Horizons 2017/2036 (“Airbus GMF”), p 8-9.; Boeing: Current Market Outlook 2017 – 2036, p7; (“Boeing”), p. 20-21.

¹⁴ Airbus p7; Boeing p 7.

¹⁵ Airbus GMF, p7.

¹⁶ Boeing, p7.

¹⁷ Airbus GMF p22.

¹⁸ Airbus GMF p32.

¹⁹ IBIS p5,p14.

²⁰ Airbus GMF p14.

²¹ IBIS p4,p10.

However, factors like private consumption levels, population growth and employment are also significant factors shaping air travel growth. Air travel is considered a discretionary expense, depending on consumers' disposable income. Economic and income growth in large emerging markets such as China and India has been a primary driver of global GDP growth and also demand for air travel. Growing middle class population and transition of emerging market economies like China to a more service-based economy support air travel demand in the future. Within the services sector of the global economy, consumer spending on travel and tourism continues to grow, increasing at a faster rate than overall GDP growth. Consumer spending in developed economies like the US, Europe and Australia has remained robust, contributing to stable or increasing air travel volumes.²²

Oil and jet fuel prices, exchange rates

Oil and jet fuel prices are an important operating cost component for airlines (accounting for up to 40% of an airline's revenue), with cost savings sought to be realised to improve margins. In the short to medium term, forecasts suggest that oil and jet fuel prices will recover over time but may not reach past peak levels. Over the last few years, air passengers benefited from relatively low oil prices and airlines accepting lower yields, resulting in lower ticket prices and promoting more travel.²³

With higher oil prices, utilising new technologies to create more fuel efficient aircraft was attractive. . This incentive has now somewhat reduced with lower oil prices, but is still compelling to manage airline profitability.²⁴

For the Canadian aerospace parts manufacturing industry, nearly 70% of industry revenue is derived from exports, with US being a key market for Canadian suppliers. Therefore the value of the Canadian Dollar in particular the exchange rate to the US Dollar, is important and impact the competitiveness of the Canadian manufacturing industries. A strong Canadian Dollar makes exports relatively more expensive and imports relatively less costly.²⁵

Terrorism and external shocks

Air travel has proved resilient to external shocks, with events like the 2001 WTC attack or the 2009 financial crisis only causing short-term disruptions. IATA estimated that, for example, the late 2015 / early 2016 terror attacks in Paris and Brussels lowered European airlines' international traffic by 1.6% in the following year. Nonetheless, as in the case with the SARS pandemic in 2003 or the Icelandic ash cloud in 2010, the impact on international passenger traffic has been temporary. Overall air passenger demand has proven resilient to short-lived shock events. By contrast, events like 9/11 and the global financial crisis are associated with a permanently lower level of traffic compared to previous trends and slower growth overall.²⁶ Nonetheless, robust growth of current air traffic levels is expected to continue in the future.²⁷

²² Boeing p7-8, Airbus GMF p14, IBIS p5.

²³ Airbus GMF p12,22, IBIS p4.

²⁴ Boeing p21.

²⁵ IBIS p5-6.

²⁶ IATA: "Estimating the impact of recent terrorist attacks in Western Europe", May 2017.

²⁷ Airbus GMF p23, Boeing p19.



Regulatory & technology environment

The International Civil Aviation Organization (ICAO) is the United Nations' agency that governs international aviation. State regulators like the US Federal Aviation Administration (FAA) or the European Aviation Safety Agency (EASA) then align domestic regulations with ICAO.²⁸

Increased liberalisation of the airline market has been critical to the growth of commercial global aviation. Deregulation has also resulted in airline competition, reduced fares, increased operating efficiency and improved service. The expectation is that the trend to liberalisation will continue and will be critical for continued growth of air travel.²⁹ Tightening environmental regulations will also increase the demand for new aircraft and engines to meet lower greenhouse gas and noise level standards.³⁰

Aircraft manufacturers have to meet strict product quality and manufacturing standards. These are published by various state regulators and industry bodies. US and Canadian regulations are amongst the most stringent in the world. The relevant certifications are both costly and difficult to obtain. However, holding the appropriate certifications is a critical gateway to serving customers with manufacturing, repair and products.

2.3 Key success factors for parts manufacturing and services market

Important success factors for companies operating in the manufacturing and services include:

- Successful management of external contracts with suppliers to achieve improvements in efficiency and development costs;
- Keeping up with the latest technology and market demands to meet airlines' expectations of achieving cost reductions and enhancing customer experience;
- Access to highly qualified workforce and technological know-how to keep up with technological developments;
- Development of technological know-how and new products to stay competitive;
- Ability to secure long-term sales contracts that guarantee steady revenue.³¹

Barriers to enter this market are considered high and increasing. New entrants would need to invest significant capital into large factories and specialised manufacturing equipment, develop advanced technology and comply with heavy regulation. Current operators are well-established in a competitive and globalised market.³²

²⁸ Boeing p11.

²⁹ Boeing p8-9.

³⁰ IBIS p8.

³¹ IBIS p21; Airbus GMF 108, 111.

³² IBIS p24.



3 Profile of AEM

3.1 Introduction

AEM commenced operations in 2009, when NAT elected to close manufacturing operations in Canada. As a result, Veitch led a management buyout to take over the manufacturing facility of NAT and commence operations with a team of 49 people and a contract to manufacture aerospace components for Cobham.

In 2010, AEM purchases a licence to produce several Cobham products for which it was previously contract manufacturing. This proved to be particularly valuable for AEM as it provided direct access to global OEMs and aircrafts dealers.

In 2011, AEM signed an agreement with SMS to design and manufacture CVT sensors and related equipment for the aviation industry.

In 2015, AEM renewed a number of agreements with Cobham for a further 5 year period including contract manufacturing; contract manufacturing with customer services and R&D; licencing manufacturing.

Over the years, AEM expanded its manufacturing capabilities, level of certifications and signed-up significant global customers in the aerospace industry.

Nowadays, AEM is a leading designer and manufacturer of avionics, aircraft audio systems, intercoms, tactical FM radio systems, illuminated panels & display products, external PA systems, audio amplifiers, audio adapters and remote switch assemblies. Overtime, AEM has invested significant time and know-how to develop its own products such as load speakers and audio warning generator whose marketing and commercialisation have proven particularly successful for AEM. Going forward, the design, manufacture and commercialisation of AEM owned products represent a key focus for the management team.

AEM is a Transport Canada approved manufacturer and maintenance organization and it holds several other certifications as outlined in section 3.3.

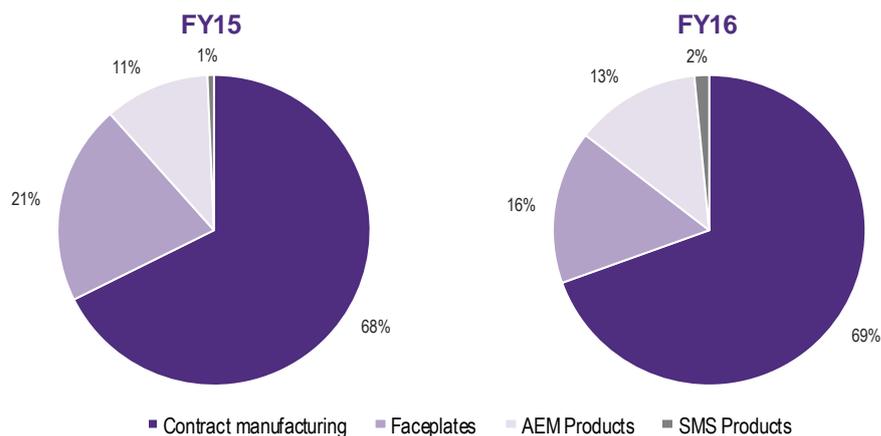
3.2 Products and services

- *Contract manufacturing and repair* – AEM produces and repairs both components and finished products for its customers which include global OEMs such as Cobham, Skytrac, Flyht, SEI Industries and Rogerson Kratos. AEM produces hundreds of components and finished products including alerting systems, audio controllers, audio selector panels, cabin/external PA systems, intercom systems and other products. Typically manufacturing contracts are long term contracts which span between 3 and 10+ years. AEM offers a number of manufacturing options to its customers such as design and prototyping, outsourced production, assembly and testing or simply repairing services.
- *AEM products* – AEM manufactures and markets a number of AEM branded products which are produced either under a licencing agreement with Cobham or based on proprietary IP including loudspeaker systems and master caution panels. The latter offers improved functionality and longevity over existing products and they are approved for installation as a certified replacement part for existing aircraft which ensure a significant pipeline of ongoing revenues for AEM given the longevity of existing aircrafts and the reluctance of OEMs and carriers to replace them. Key end users of AEM products are operators of special role aircrafts such as rescue, coast guard, safety and law enforcement.

- *Faceplates* – AEM designs, manufactures and repairs faceplates and display panels for aircraft. We have been informed that AEM is on track to receive appropriate certification for the design and manufacture of illuminated panel products in 2018 which should increase the market opportunities for the company. New faceplates and display panels are usually sold to OEMs or aircraft dealers for installation on new aircrafts.
- *SMS products* – AEM has been in partnership with SMS since 2011 in relation to the design and manufacture of remote crack detection sensors and instrument panel technology in the aerospace industry. The sensors are the primary components of SMS’s CVM™ patented technology which targets primarily OEMs and airlines for inclusion in new aircraft. The CVM™ offers a novel method for in-situ, real-time monitoring of crack initiation and/or propagation. Sensors may either take the form of self-adhesive polymer sensors or may form part of the component. This product is capable of being integrated with an aircraft to provide an in-flight structural health monitoring system (“SHM”). The In-flight structural health monitoring system developed using the CVM™ technology is able to continuously monitor the development of any cracks in predefined areas on an aircraft that are deemed to have a high risk of crack formation. In-flight SHM using CVM™ system produced by SMS will consist of a number of different types of sensors placed at strategic locations throughout an aircraft that are linked to onboard instrumentation to detect and report on the initiation and growth of cracks. Whilst historical revenue in relation to these products has been limited, AEM expects a significant uplift going forward in conjunction with increase market acceptance of the CVM™ Technology. We note that on 17 August 2017, SMS announced that it has executed the world’s first commercial agreement related to the supply and permitted use of the CVM™ technology with Delta.

We have set out in the graph below the breakdown of revenue generated in FY15 and FY16 by type of products/services.

FY15-FY16 Revenue break down by product segment



Source: AEM Information Memorandum 2017

3.3 Certifications and licences

AEM’s manufacturing facility is located in Kelowna, British Columbia, Canada. The facility is certified for the manufacture and repair of aerospace components. A summary of AEM’s other key certifications is outlined in the table below:

| Granting Authority | Certification | Certification |
|---|--|--|
| Agencia Nacional de Aviacao Civil - Brasil (ANAC) | Approved Maintenance Organisation | AEM is authorised to perform maintenance on Brazilian aircraft and components. |
| European Aviation Safety Agency (EASA) | Part 145 Approved Maintenance Organisation (AMO) | AEM is approved by EASA to maintain products for the aviation industry. |
| SAI Global | Registered ISO 9001:2008/AS9100C | The Company operates a quality management system that covers the design, development, manufacture and maintenance of airborne communications equipment and other electronic devices. |
| Transport Canada | Approved Maintenance Organisation (AMO) under Canadian Aviation Regulations (CAR) Standard 573 | AEM is approved for the maintenance of aeronautical products, and holds ratings in the avionics category, permitting it to perform maintenance work on various avionics systems. |
| Transport Canada | Manufacturing Approval under CAR Standard 561 | AEM is approved for the manufacture and certification of aeronautical products, in the communication and navigation equipment category, as specified by Transport Canada. |

Source: AEM Information Memorandum 2017

3.4 Management Team

Veitch is the President of AEM but has been transitioning his day to day responsibilities since 2015. Veitch started working in NAT in 1980 and established AEM in 2009. As part of the succession planning for Veitch, AEM recently hired a Vice President of Operation, Mr Brian Wall, who is expected to step into Veitch's role.

Lewis is Vice President of Business Development and is in charge of business and product development, sales and marketing, OEM account development and contract management. We understand that Lewis currently holds relationships with all major international customers and is in the process to transitioning these relationships over the next two years as part of the succession planning.

3.5 Financial performance

The performance of the Company for the years ended 30 September 2015 ("FY15"), 30 September 2016 ("FY16") and 30 September 2017 ("FY17") is presented below. We note that the financial performance is presented in an abbreviated form for confidentiality reasons.

| Consolidated statements of profit or loss and other comprehensive income for the year ended: | FY15 30-Sep-15 Audited | FY16 30-Sep-16 Audited | FY17 30-Sep-17 Unaudited |
|--|------------------------------|------------------------------|--------------------------------|
| \$ CAD | | | |
| Revenue | | | |
| Revenue | 12,776,197 | 12,913,473 | 13,172,873 |
| Revenue growth rate % | -2.5% | 1.1% | 2.0% |
| Pre-tax net income | 1,623,864 | 1,116,845 | 1,204,481 |
| Income taxes | (444,276) | (254,000) | (137,876) |
| Net income/(loss) | 1,179,588 | 862,845 | 1,066,605 |
| Reported EBITDA | 2,107,153 | 1,550,690 | 1,522,149 |
| Reported EBITDA % | 16.5% | 12.0% | 11.6% |

Source: Annual report and management

With regard to the above, we note the following:

- AEM makes a significant portion of its sales in UD\$. We note that in the last three years, circa 90% of the revenue and accounts receivables were in US\$ whereas only circa 60% of accounts payables were in US\$. AEM does not adopt hedging policies to mitigate the impact of exchange rate fluctuations.

- AEM has a high customer concentration with the top 10 clients generating between 80% and 85% of revenue over the last three years.
- In February 2015, AEM signed a new contract with Cobham which transitioned certain products from licenced manufacturing to contract manufacturing which yields a lower margin. This is the main reason behind the reduction of the reported EBITDA margin from 16.2% in FY15 to 12% in FY16.
- Ray and Weitch, as AEM's shareholders, draw a substantial amount of their remuneration in the form of dividends which needs to be normalised from a valuation perspective.
- The EBITDA includes a Scientific Research and Experimental Development ("SR&ED") tax credit in conjunction with eligible R&D undertaken by AEM.
- AEM has historically incurred substantial costs on the R&D for the SMS sensors (estimated at circa C\$400,000 per annum) which has been fully expensed into the profit and loss. However, revenue is expected to be generated in the future years, especially following the recent announcement from SMS that it had entered into the Delta Agreement.
- The corporate and federal tax rate in Canada is 26% but historically AEM has paid a lower rate as a result of small company tax break on its first C\$500,000.

3.6 Financial position

The financial position of the Company as at 30 September 2016 and 30 September 2017 is presented below:

| Consolidated statements of financial position as at \$ CAD | FY16 30-Sep-16 Audited | FY17 30-Sep-17 Unaudited |
|--|------------------------------|--------------------------------|
| Assets | | |
| Cash and cash equivalents | - | 40,977 |
| Accounts receivable | 2,201,454 | 2,350,290 |
| Income taxes receivable | 179,228 | - |
| Inventory | 3,950,601 | 3,887,322 |
| Prepays and deposits | 95,318 | 103,997 |
| Total current assets | 6,426,601 | 6,382,585 |
| Equipment and leaseholds | 572,675 | 458,346 |
| License fees | 231,000 | 165,000 |
| Total non-current assets | 803,675 | 623,346 |
| Total assets | 7,230,276 | 7,005,932 |
| Liabilities | | |
| Bank indebtedness | 1,147,195 | - |
| Accounts payable and accruals | 353,027 | 416,268 |
| Government remittances payable | 3,477 | - |
| Deferred revenue | - | - |
| Current portion of long term debt | 13,595 | - |
| Income tax provision | - | 98,008 |
| Due to intercompany | - | 356,934 |
| Total current liabilities | 1,517,294 | 871,210 |
| Long term debt | - | - |
| Due to shareholder | 636,666 | - |
| Total non-current liabilities | 636,666 | - |
| Total liabilities | 2,153,960 | 871,210 |
| Net assets | 5,076,316 | 6,134,722 |
| Equity | | |
| Share capital | 24 | 7,400,024 |
| Retained earnings | 5,076,292 | (1,265,302) |
| Total equity | 5,076,316 | 6,134,722 |

Source: Annual report and management



With regard to the above, we note the following:

- The net working capital of AEM (current assets less current liabilities) has increased materially over the last three years from C\$5.1 million in FY15 to C\$6.2 million in FY17. The increase in working capital was mainly due to AEM being required to undertake large inventory purchases in conjunction with the company entering into new contract manufacturing agreements. This large working capital balance is expected to reduce marginally over the life of the agreements and the customers have an obligation to repurchase the inventory if they terminate the contract manufacturing agreement. However, AEM believes that it is critical for the success of the business to be able to meet customer demand in an expedited manner and accordingly it tends to have large amounts of inventory on hand.
- Despite being a capital intensive business, AEM has a relatively small fixed asset balance. We understand that this is mainly driven by the acquisition of the machinery and equipment from NAT at particularly low cost in 2009.
- The average historical capital expenditure incurred by AEM over the last three years was circa C\$160,000. AEM has limited capital expenditure requirements and manufacturing capacity can be easily increased with limited capital outlay.
- AEM is being acquired on a debt free basis and accordingly we have not commented on the debt facilities of the company.

4 Valuation methodologies

4.1 Introduction

In accordance with our basis of assessment set out in Section 2.2, our fairness assessment involves comparing the fair market value of the Purchase Price with the fair market value of AEM.

Grant Thornton Corporate Finance has assessed value using the concept of fair market value. Fair market value is commonly defined as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

4.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets (“FME Method”).
- Discounted cash flow method and the estimated realisable value of any surplus assets (“DCF Method”).
- Amount available for distribution to security holders on an orderly realisation of assets (“NAV Method”).
- Quoted price for listed securities, when there is a liquid and active market (“Quoted Security Price Method”).
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

4.3 Methodologies selected

In our assessment of the fair market value of AEM, Grant Thornton Corporate Finance has relied on the indicative desktop DCF approach and EBITDA multiple of comparable companies.

4.3.1 Desk-top DCF Method

We have undertaken a high level desktop DCF analysis of AEM based on historical financial performance and the high level budget information provided by the management team.

We note that given that AEM's cash flow generation has been substantially consistent over the past three years, we have calculated a normalised level of free cash flow which we have capitalised in perpetuity base on the Weighted Average Cost of Capital ("WACC").

4.3.2 FME Method

Grant Thornton Corporate Finance has selected the EBITDA capitalisation approach to cross check our assessment of the fair market value of AEM. In particular, we have assessed the EBITDA multiple implied in our Desktop DCF and we have compared it with the EBITDA multiples of listed comparable companies and comparable transactions.

We are of the opinion that a capitalisation of earnings approach is an appropriate valuation methodology for AEM due to following:

- AEM is a mature business with a history of profitability, which is expected to continue in the future.
- EBITDA multiples for manufacturers are widely used and accepted relative valuation measures.

We note that the reliability of this cross check methodology is limited by the significantly smaller size of AEM compared with listed comparable companies and transactions.

The EBITDA capitalisation approach involves the following key processes:

- Selecting an appropriate level of maintainable EBITDA, having regard to the historical and budgeted operating results after adjusting for non-recurring items of income and expenditure, and other known factors likely to affect the future operating performance of the business.
- Comparing the EBITDA multiple implied in the Desktop DCF with the EV/EBITDA multiples of trading comparable companies and comparable transaction.

5 Valuation assessment of AEM

5.1 Valuation summary

As discussed in Section 4.3, we have utilised the Desktop DCF Method with a cross check based on the FME Method to assess the fair market value of AEM. We have set out in the table below a summary of our assessed valuation range and the implied EBITDA multiple.

| Valuation summary - DCF Method \$ CAD | Section Reference | Low | High |
|--|----------------------|------------------|-------------------|
| Assessed fair market value of AEM | 5.2 | 9,574,638 | 11,730,388 |
| FY16 EBITDA (Actual) | | 1,834,238 | 1,834,238 |
| FY17 EBITDA (Unaudited) | | 1,735,084 | 1,735,084 |
| Normalised EBITDA | | 1,700,000 | 2,000,000 |
| Implied EV/EBITDA multiple FY16 | | 5.2x | 6.4x |
| Implied EV/EBITDA multiple FY17 | | 5.5x | 6.8x |
| Implied EV/EBITDA multiple Normalised EBITDA | | 5.6x | 5.9x |

Source: GTCF calculations

5.2 Desktop DCF Method

For the purpose of our valuation assessment of AEM utilising the DCF method, Grant Thornton Corporate Finance developed a high level normalised free cash flows of the operating business of AEM based on the historical normalised financial performance and the high level FY18 Budget.

5.2.1 Normalised level of EBITDA

We have set out below our assessment of the historical normalised EBITDA of AEM for the last three years.

| Normalisation of EBITDA for the year ended: \$ CAD | Note | FY14 30-Sep-14 Audited | FY15 30-Sep-15 Audited | FY16 30-Sep-16 Audited | FY17 30-Sep-17 Reviewed |
|--|------|------------------------------|------------------------------|------------------------------|-------------------------------|
| Reported EBITDA | | 2,403,000 | 2,107,153 | 1,550,690 | 1,689,274 |
| Reported EBITDA % | | 18.3% | 16.5% | 12.0% | 12.8% |
| Normalisation adjustments | | | | | |
| One time due diligence costs | 1 | - | 197,567 | - | - |
| One time severance | 2 | 23,000 | 90,710 | 68,798 | - |
| Adjustment for market based remuneration | 3 | (350,000) | (390,000) | (290,000) | (245,000) |
| Constant currency adjustment | 4 | - | 68,152 | (228,891) | (44,006) |
| SR & ED recovery reduction | 5 | - | (102,547) | (77,467) | (81,018) |
| SMS sensors R&D | 6 | - | 340,000 | 340,000 | 340,000 |
| Other normalisation adjustments | 7 | 82,000 | 113,869 | 471,107 | 75,834 |
| Normalised EBITDA | | 2,158,000 | 2,424,903 | 1,834,238 | 1,735,084 |
| Normalised EBITDA % | | 16.5% | 19.0% | 14.2% | 13.2% |

Source: Annual reports, Management and GTCF calculations

Note 1 – Add back of due diligence costs incurred in conjunction with an acquisition which was subsequently aborted.

Note 2 – Add back of redundancy payments, a one-off bonus paid to the employees and discretionary training in relation to potential efficiencies yet to be realised.

Note 3 – Adjustment to the profitability of AEM to reflect the assessment of market based remuneration for Veitch, Lewis and CFO role.

Note 4 – Add back/reduction in conjunction with expressing the historical financial information on a constant US\$ to C\$ exchange rate as at 30 September 2017.

Note 5 – Following completion of the Proposed Transaction, the SR&ED claim rate will reduce from 35% to 15% given that AEM will become a wholly owned subsidiary of a foreign entity. Accordingly, we have reduced the historical credits in line with the revised claim rate going forward.

Note 6 – Historically AEM has incurred an average of C\$400,000 per annum (gross of SR&ED credit) on R&D costs in relation to the development of the SMS sensors however, the corresponding revenue is yet to be generated. Based on discussions with the Management of SMS, they expect a significant ramp-up in the operations following the execution of the Delta Agreement. This will have positive flow-on effects on the revenue and financial performance of AEM. SMS' sensors manufacturing contribution to the total revenue of AEM is expected to significantly increase in medium term. Given that in our assessment of the future maintainable EBITDA we have not included the uplift expected to be generated by the ramp-up of the Delta Agreement, we have also removed the related historical expenses (net of SR&ED credit).

Note 7 – Add back/reduction in relation to other normalisation adjustments.

In relation to the future prospects of the business, we have also been provided with a high level FY18 Budget which is based on the following key assumptions:

- Total revenue is expected to increase by circa 5% with the revenue contribution from Cobham remaining substantially flat and a greater weighting expected by AEM products.
- Margins are expected to remain in line with FY17 whereas the EBITDA is expected to slight increase as a result of the revenue growth.

Based on the above, we have assessed a future maintainable EBITDA for the purpose of our Desktop DCF between C\$1.7 million and C\$2.0 million. At the high-end of our range of the selected normalised EBITDA, we have considered the following:

- *Growth from the sale of AEM products:* Whilst AEM's financial performance has been relatively stable over the last three years, AEM has made significant progress in its market positioning through the renewal of the various contracts with Cobham and the breakthrough with sensors R&D via the Delta Agreement. The sales of its own branded products are also becoming more substantial and significant growth is expected going forward.
- *AEM is a mature company with a strong portfolio of well recognised products:* AEM is a mature business with a global customer base and a portfolio of differentiated niche products which has allowed the company to remain relevant in an industry dominated by large corporations.
- *Synergies expected to be realised by SMS:* Management of SMS has preliminary identified some potential cost synergies able to be extracted as a result of the Proposed Transaction by potentially utilising AEM's sales team, back-office, IT and other processing systems to streamline the roll-out of the CVM™ Technology. Given that this is only preliminary in nature at this point in time, we have not considered it in our valuation assessment, however future financial benefits may accrue to the Non-Associated Shareholders in the future. We are of the opinion that these synergies are available to a pool of potential purchasers rather than being unique to SMS.

- *Industry outlook is supportive of medium term growth:* As discussed in Section 2, the general market consensus forecast is that the industry will continue to be supported by strong growth in the number of new aircrafts and the performance of the global economy.
- *Broker forecast for listed peers:* the available broker forecast for AEM's listed peers reflects a positive sentiment for the industry and a sustainable level of growth expected going forward.

5.2.2 Future maintainable free cash flows

Set out below is a summary of the key assumptions adopted in our assessment of the future maintainable FCF:

- *Tax rate* – We have assumed a nominal corporate tax rate of 26%.
- *Capex and depreciation* – We have assessed a normalised level of capital expenditure of C\$300,000 per annum. Both the Management Team of AEM and SMS have confirmed that they do not expect AEM to require any significant one-off capital expenditure to upgrade the machinery or its production facility. In accordance with market best practice, we have assumed a level of depreciation in line with the capital expenditure.
- *Changes in working capital* – Given the significant investment in working capital completed by AEM in FY15 and FY16 noting that we have assumed a perpetual real growth rate of nil, we have assumed the changes in working capital to be minimal in the assessment of the FCF.
- *Terminal value* – In our calculation of the terminal value, we have assumed a perpetual growth rate of 2% (nominal) which is in line with the long term inflation expectations.

Set out in the table below is a summary of the historical and normalised level of FCF.

| Discounted cash flow valuation model for the year ended: \$ CAD | FY15 | FY16 | FY17 | Normalised | Normalised |
|---|----------------------|----------------------|-----------------------|------------------|------------------|
| | 30-Sep-15 Audited | 30-Sep-16 Audited | 30-Sep-17 Forecast | Low Forecast | High Forecast |
| Pro forma EBITDA | 2,424,903 | 1,834,238 | 1,735,084 | 1,700,000 | 2,000,000 |
| <i>Pro forma EBITDA %</i> | 19.0% | 14.2% | 13.2% | <i>nm</i> | <i>nm</i> |
| Less: Depreciation | (414,752) | (371,467) | (297,000) | (300,000) | (300,000) |
| EBIT | 2,010,151 | 1,462,771 | 1,438,084 | 1,400,000 | 1,700,000 |
| Less: Tax | (444,276) | (254,000) | (323,000) | (364,000) | (442,000) |
| EBI | 1,565,875 | 1,208,771 | 1,115,084 | 1,036,000 | 1,258,000 |
| Add: Depreciation | 414,752 | 371,467 | 297,000 | 300,000 | 300,000 |
| Less: Capex | (126,000) | (293,000) | (121,339) | (300,000) | (300,000) |
| Less: Changes in working capital | (705,777) | (927,320) | 144,756 | (50,000) | (50,000) |
| FCFF | 1,148,850 | 359,918 | 1,435,501 | 986,000 | 1,208,000 |

Source: Annual reports, Management and GTCF calculations

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences in opinion.

5.2.3 Discount rate

We have assessed the net present value of future cash flows based on the weighted average cost of capital ("WACC") in the range of 11.8% to 13.2% for AEM. We have set out below the key assumptions adopted in the WACC (refer to Appendix B for details).

- *Risk Free Rate* – 3%
- *Beta* – 1.1 to 1.2
- *Market Risk Premium* – 6.0%

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- *Specific Risk Premium* – 3% to 4%
- *Pre-tax cost of debt* – 6.0%
- *Capital structure* – 10% debt to 90% equity

5.2.4 Summary of value based on the Desktop DCF

We have set out below a summary of our valuation assessment based on the Desktop DCF

| Valuation summary - DCF Method \$ CAD | Section Reference | Low | High |
|--|----------------------|------------------|-------------------|
| Assessed fair market value of AEM | 5.2 | 9,574,638 | 11,730,388 |

Source: GTCF calculations

It should be noted that the enterprise value of AEM could vary materially based on changes in certain key assumptions. Accordingly, we have conducted further sensitivity analysis below to highlight the impact amount on the AEM enterprise value based on the Desktop DCF Method caused by movements in certain key assumptions.

| Sensitivity analysis \$CAD | | Long term growth rate | | | | |
|----------------------------|-------|-----------------------|------------|------------|------------|------------|
| Low Case | | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| Discount rate | 11.5% | 10,582,071 | 10,582,071 | 10,582,071 | 10,582,071 | 10,582,071 |
| | 12.0% | 10,053,179 | 10,053,179 | 10,053,179 | 10,053,179 | 10,053,179 |
| | 12.5% | 9,574,638 | 9,574,638 | 9,574,638 | 9,574,638 | 9,574,638 |
| | 13.0% | 9,139,586 | 9,139,586 | 9,139,586 | 9,139,586 | 9,139,586 |
| | 13.5% | 8,742,350 | 8,742,350 | 8,742,350 | 8,742,350 | 8,742,350 |

| Sensitivity analysis \$CAD | | Long term growth rate | | | | |
|----------------------------|-------|-----------------------|------------|------------|------------|------------|
| High Case | | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| Discount rate | 11.5% | 12,964,646 | 12,964,646 | 12,964,646 | 12,964,646 | 12,964,646 |
| | 12.0% | 12,316,673 | 12,316,673 | 12,316,673 | 12,316,673 | 12,316,673 |
| | 12.5% | 11,730,388 | 11,730,388 | 11,730,388 | 11,730,388 | 11,730,388 |
| | 13.0% | 11,197,383 | 11,197,383 | 11,197,383 | 11,197,383 | 11,197,383 |
| | 13.5% | 10,710,709 | 10,710,709 | 10,710,709 | 10,710,709 | 10,710,709 |

Source: GTCF calculations

These sensitivities do not represent a range of potential values of the enterprise value of AEM, but intend to demonstrate to AEM Shareholders the sensitivity of our valuation assessment to changes in certain variables.

5.3 FME Method

We have outlined in the table below the EBITDA multiple implied in our valuation assessment based on the Desktop DCF.

| Valuation summary - DCF Method \$ CAD | Section Reference | Low | High |
|--|----------------------|------------------|-------------------|
| Assessed fair market value of AEM | 5.2 | 9,574,638 | 11,730,388 |
| FY16 EBITDA (Actual) | | 1,834,238 | 1,834,238 |
| FY17 EBITDA (Unaudited) | | 1,735,084 | 1,735,084 |
| Normalised EBITDA | | 1,700,000 | 2,000,000 |
| Implied EV/EBITDA multiple FY16 | | 5.2x | 6.4x |
| Implied EV/EBITDA multiple FY17 | | 5.5x | 6.8x |
| Implied EV/EBITDA multiple Normalised EBITDA | | 5.6x | 5.9x |

Source: Annual reports, Management and GTCF calculations

5.3.1 Assessment of EV/EBITDA Multiples

For the purpose of assessing whether or not the EBITDA multiple implied in our Desktop DCF is reasonable, we have considered:

- The trading multiples of listed comparable companies which have been attributed by share market investors.
- The multiples implied by recent transactions involving comparable companies.

Trading multiples

Summarised below are the trading multiples of the selected companies having regard to the trading prices:

| Company | Country | Market Capitalisation Local currency (Millions) | FY2016 | LTM | FY2018 | FY2019 | FY2020 | FY2021 |
|---|----------------|---|---------------------|---------------------|------------------------|------------------------|------------------------|------------------------|
| | | | EV/EBITDA Actual | EV/EBITDA Actual | EV/EBITDA Projected | EV/EBITDA Projected | EV/EBITDA Projected | EV/EBITDA Projected |
| United Technologies Corporation | United States | 96,140 | 11.7x | 11.6x | 10.5x | 9.9x | 9.1x | 8.7x |
| Bombardier Inc. | Canada | 6,857 | 22.8x | 20.4x | 14.0x | 10.5x | 8.4x | 5.7x |
| Honeywell International Inc. | United States | 110,921 | 15.1x | 14.5x | 12.6x | 11.7x | NA | NA |
| Thales S.A. | France | 18,985 | 8.9x | 10.4x | 8.2x | 7.6x | 7.4x | 6.4x |
| Meggitt PLC | United Kingdom | 4,056 | 10.6x | 9.6x | 9.7x | 9.0x | 8.5x | NA |
| HEICO Corporation | United States | 7,007 | 23.4x | 21.1x | 18.5x | 17.3x | 17.3x | NA |
| Teledyne Technologies Incorporated | United States | 6,483 | 22.3x | 16.7x | 15.3x | 14.7x | NA | NA |
| Woodward, Inc. | United States | 4,810 | 16.9x | 15.8x | 13.6x | 12.0x | 10.9x | NA |
| China Aerospace Times Electronics CO., LTD. | China | 22,135 | 13.9x | 26.2x | 18.3x | NA | NA | NA |
| Esterline Technologies Corporation | United States | 2,848 | 12.5x | 10.8x | 10.1x | 9.4x | NA | NA |
| RSL Electronics Ltd. | Israel | 18 | NM | 9.3x | NA | NA | NA | NA |
| FIRSTEC Co., Ltd. | South Korea | 166,784 | 43.2x | 37.7x | NA | NA | NA | NA |
| Environmental Tectonics Corporation | United States | 18 | NM | 10.5x | NA | NA | NA | NA |
| Low | | | 8.9x | 9.3x | 8.2x | 7.6x | 7.4x | 5.7x |
| Average | | | 18.3x | 16.5x | 13.1x | 11.3x | 10.3x | 6.9x |
| Median | | | 15.1x | 14.5x | 13.1x | 10.5x | 8.8x | 6.4x |
| High | | | 43.2x | 37.7x | 18.5x | 17.3x | 17.3x | 8.7x |

Source: S&P Capital IQ and GTCF calculations

Note (1): Market capitalisation as at 6 November 2017

All the listed comparable companies above are global corporations with a diversified product range and very significant market capitalisations. This poses a significant limitation on the ability to draw meaningful conclusions from the analysis. Notwithstanding this, we are of the opinion that the EBITDA multiples still provide certain directional evidence of the multiple applicable to AEM.

We note the following key observations which should be considered based on the limitation above:

- Whilst the selected comparable companies operate in the aerospace and electronics manufacturing industry, they also provide a wide array of manufacturing products in other industries such as defence, transportation and energy. In comparison, AEM only focuses in the aerospace sector.
- Meggit is the most comparable listed company to AEM (on a relative basis) due to its product offerings to large commercial transports, business jets, helicopters and general aviation, and its operations in the global aerospace market. Furthermore, similar to AEM, Meggit has a strong focus in contract manufacturing and it has been growing through developing its own intellectual property.
- HEICO Corporation has a robust presence in the aerospace and defence industry. However, we note that HEICO Corporation is one of the world's largest independent providers of FAA³³-approved aircraft replacement parts and it partners with numerous airlines around the globe for the aftermarket parts supply and repair solutions.
- Whilst Bombardier Inc. is headquartered out of Canada like AEM, it has a strong presence in the global aerospace market, its business is greatly diversified and it is relatively competitive in transportation market.
- We have placed limited reliance on the other listed comparable companies given the size and diversification of their operations compared to AEM.

Transaction multiples

We have further considered multiples implied by historical transactions involving companies comparable to AEM. The table below summarises the EV/EBITDA multiples implied by these historical transactions.

| Date | Target Company | Country | Bidder Company | Stake (%) | Deal Value (A\$m) | Rev Multiple (Times) | EBITDA Multiple (Times) | Status |
|----------------|------------------------------|---------------|--|-----------|-------------------|----------------------|-------------------------|--------|
| Nov-16 | Mentor Graphics Corporation | United States | Siemens Industry, Inc. | 100% | 5,318 | 3.4 | 20.6 | Closed |
| Sep-16 | Mentor Graphics Corporation | United States | Elliott Management Corporation; Elliott Associates, L.P.; Elliott International Capital Advisors Inc.; Elliott International, L.P. | 4% | 137 | 2.1 | 14.9 | Closed |
| Sep-16 | Orolia SA | France | Eurazeo PME | 5% | 5 | 0.9 | 7.3 | Closed |
| Feb-16 | Orolia SA | France | Eurazeo PME | 88% | 170 | 1.0 | 8.0 | Closed |
| Jun-15 | Herley Industries, Inc. | United States | Ultra Electronics Defense, Inc. | 100% | 342 | NA | 11.8 | Closed |
| Feb-15 | Exelis Inc. | United States | Harris Corporation | 100% | 6,717 | 1.4 | 9.2 | Closed |
| Jun-14 | Measurement Specialties Inc. | United States | TE Connectivity Ltd. | 100% | 1,770 | 3.9 | 22.3 | Closed |
| Mar-13 | Teac Corporation | Japan | Gibson Guitar Corp. (nka:Gibson Brands, Inc.) | 54% | 98 | 0.4 | 10.0 | Closed |
| Average | | | | | | 1.89 | 13.02 | |
| Median | | | | | | 1.44 | 10.90 | |

Source: S&P Capital IQ and GTCF calculations

³³ The Federal Aviation Administration

Regarding the multiples implied by the above transactions, we have had specific regard to the transactions related to Orolia S.A., Exelis Inc. and Teac Corporation based on the nature of their operations. Orolia S.A. provides supervision, navigation and timing solutions to enhance operations and reduce risks for the aerospace, defence, as well as commercial markets; whereas Exelis Inc. and Teac Corporation are involved in designing and manufacturing audio and communication systems for aircrafts and other end users.

Conclusion for EV/EBITDA multiples

We are of the opinion that the normalised EBITDA multiple between 5.6x and 5.9x implied in our Desktop DCF assessment is not unreasonable and in particular not overstated due to the following:

- Whilst the EBITDA multiples of listed comparable companies do not provide conclusive evidence, they provide directional evidence that the normalised EBITDA multiple implied in our Desktop DCF is not overstated. We note that Meggit, Heico and Bombardier are all trading at FY18 EBITDA multiples between 9.7x and 18.5x.
- The three most comparable transactions identified had at an average historical EBITDA multiple of circa 9x.

6 Source of information, disclaimer and consents

6.1 Source of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Information Memorandum
- Other financial and legal documents provided in the Dataroom
- ASX announcements
- Annual reports
- Management accounts
- Discussions with Management
- IBISWorld
- S&P Capital IQ
- Other publicly available information

6.2 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by the Company, and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been prepared to assist the Independent Directors of SMS in advising the Non-Associated Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

SMS has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company, which the Company knew or should have known to

be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. The Company will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

6.3 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting to be sent to SMS Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

Appendix A – Valuation methodology

Discounted cash flow

An analysis of the net present value of projected cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the WACC. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

The selection of the appropriate multiples to apply is a matter of judgement and involves consideration of a number of factors including:

- The stability and quality of earnings.
- The nature and size of the business.
- The financial structure of the company and gearing level.
- Future prospects of the business.
- Cyclical nature of the industry.
- The asset backing of the underlying business of the company and the quality of the assets.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Net asset backing/orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of listed securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method

uses similar or comparative transactions and/or listed trading companies to establish a value for the current transaction.

The comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

Appendix B – Discount rate

Introduction

The cash flow assumptions underlying the GT Model are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of AEM.

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\text{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- R_e = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- R_d = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

Required rate of return on equity capital

We have used the Capital Asset Pricing Model (“CAPM”), which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment’s expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company’s returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market – it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (R_e) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m - R_f)$ = market risk premium

Risk free rate

In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have observed the yield on the 10-year Canadian Government bond over several intervals from a period of 5 trading days to 10 trading years. Given the volatility in the global financial markets, we have placed more emphasis to the average risk free rate observed over a longer period of time. Based on the above, we have adopted the risk free rate of 3.0%.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest the premium is between 5.5% and 6.0%.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6.0%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity. For the purpose of this report, we have had regard to the observed betas (equity betas) of comparable companies as set out below:

| Beta analysis Company | Country | Market Cap \$'million | Equity Beta ¹ | Local Index | | MSCI Index | | |
|---|----------------|--------------------------|-----------------------------|------------------|------------------|-----------------------------|------------------|------------------|
| | | | | Ungeared Beta | Regeared Beta | Equity Beta ¹ | Ungeared Beta | Regeared Beta |
| United Technologies Corporation | United States | 96,140 | 1.07 | 0.91 | 0.99 | 0.97 | 0.83 | 0.89 |
| Bombardier Inc. | Canada | 6,857 | 1.17 | 0.65 | 0.70 | 0.89 | 0.49 | 0.53 |
| Honeywell International Inc. | United States | 110,921 | 0.95 | 0.92 | 0.99 | 0.83 | 0.80 | 0.86 |
| Thales S.A. | France | 18,985 | 0.62 | 0.62 | 0.67 | 0.59 | 0.59 | 0.64 |
| Meggitt PLC | United Kingdom | 4,056 | 0.62 | 0.49 | 0.53 | NM | NM | NM |
| HEICO Corporation | United States | 7,007 | 0.82 | 0.75 | 0.81 | 0.59 | 0.54 | 0.59 |
| Teledyne Technologies Incorporated | United States | 6,483 | 1.07 | 0.92 | 1.00 | 0.83 | 0.71 | 0.77 |
| Woodward, Inc. | United States | 4,810 | 1.18 | 0.99 | 1.08 | 0.99 | 0.84 | 0.91 |
| China Aerospace Times Electronics CO., LTD. | China | 22,135 | 1.09 | 0.99 | 1.08 | 1.54 | 1.41 | 1.52 |
| Esterline Technologies Corporation | United States | 2,848 | 1.59 | 1.28 | 1.38 | 1.41 | 1.14 | 1.23 |
| RSL Electronics Ltd. | Israel | 18 | 0.16 | 0.14 | 0.16 | NM | NM | NM |
| FIRSTEC Co., Ltd. | South Korea | 166,784 | 0.98 | 0.79 | 0.86 | 1.47 | 1.19 | 1.29 |
| Environmental Tectonics Corporation | United States | 18 | 1.50 | 0.78 | 0.84 | 1.50 | 0.78 | 0.84 |
| Average | | | 0.99 | 0.79 | 0.85 | 1.06 | 0.85 | 0.92 |
| Median | | | 1.07 | 0.79 | 0.86 | 0.97 | 0.80 | 0.86 |

Source: S&P CapitalIQ and GTCF calculations

Note (1): Equity betas are calculated using data provided by S&P CapitalIQ. The betas are based on a five-year period with monthly observations and have been degeared based on the average gearing ratio over five years.

Note (2): NM - Not meaningful

Grant Thornton Corporate Finance has observed the betas of the comparable companies by reference to both the local index of each company (based on country of domicile) and the MSCI index. We note that the MSCI index is more appropriate for the larger international companies given their global exposure.

It should be noted that the above betas are drawn from the actual and observed historic relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the pre-development assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected company are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly

referred as degearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the degearing and regearing exercise:

$$\beta_e = \beta_a \left[1 + \frac{D}{E} \times (1 - t) \right]$$

Where:

- β_e = Equity beta
- β_a = Asset beta
- t = corporate tax rate

The betas are de-gearred using the median gearing level over the period in which the betas were observed and then re-gearred based on a gearing ratio of 10% debt to 90% equity (see Capital Structure Section below for further discussions).

Based on the analysis above and taking into account the specific circumstances of AEM, we have selected a beta between 1.10 and 1.20 for the AEM.

Specific risk premium

Specific risk premium represents the additional return an investor expects to receive to compensate for size and company related risks not reflected in the beta of the observed comparable companies.

Cost of debt

For the purpose of estimating the cost of debt applicable to AEM, Grant Thornton Corporate Finance has considered the following.

- The margin implicit in corporate bond yields over the Canadian Government bond yields.
- The historical and current cost of debt for AEM and the comparable companies.
- Expectations of the yield curve.
- The cost of debt adopted by other independent experts.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt of 6.0% (pre-tax).

Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining the WACC for a particular company should be the “target” gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- The quality and life cycle of a company.
- The quality and variability of earnings and cash flows.
- Working capital.
- Level of capital expenditure.
- The risk profile of the assets.

In determining the appropriate capital structure for the purpose of this report, we have also had particular consideration to the following:

- The average gearing ratio of comparable companies over the last five year period as set out in the beta section of this report.
- The current and historic, and target gearing of AEM.

Based on the above observations, for the purpose of the discount rate assessment Grant Thornton Corporate Finance has adopted a capital structure of 10% debt and 90% equity for AEM.

WACC calculation

The discount rate is determined as set out below:

| WACC calculation | Low | High |
|--------------------------------|--------------|--------------|
| Cost of equity | | |
| Risk free rate | 3.0% | 3.0% |
| Beta | 1.10 | 1.20 |
| Market risk premium | 6.0% | 6.0% |
| Specific risk premium | 3.0% | 4.0% |
| Cost of equity | 12.6% | 14.2% |
| Cost of debt | | |
| Cost of debt (pre tax) | 6.0% | 6.0% |
| Tax | 26.0% | 26.0% |
| Cost of debt (post tax) | 4.4% | 4.4% |
| Capital structure | | |
| Proportion of debt | 10% | 10% |
| Proportion of equity | 90% | 90% |
| WACC (post tax) | 11.8% | 13.2% |

Source: S&P Capital IQ and GTCF calculations

Appendix C – Trading comparable company descriptions

| Company | Description |
|-----------------------------------|---|
| Structural Monitoring Systems Plc | Structural Monitoring Systems Plc, through its subsidiaries, develops and commercializes structural health monitoring technology in Australia. It offers CVM switch for fatigue testing; CVM NDI; and laboratory kits for use in real-time crack detection and monitoring. The company is based in Claremont, Australia. |
| United Technologies Corporation | United Technologies Corporation provides technology products and services to building systems and aerospace industries worldwide. Its Otis segment designs, manufactures, sells, and installs passenger and freight elevators, escalators, and moving walkways; and offers modernization products to upgrade elevators and escalators, as well as maintenance and repair services. The company's UTC Climate, Controls & Security segment provides heating, ventilating, air conditioning, and refrigeration solutions, such as controls for residential, commercial, industrial, and transportation applications. This segment offers electronic security products, including intruder alarms, access control systems, and video surveillance systems; fire safety products; and design, installation, system integration, repair, maintenance, monitoring, and inspection services. Its Pratt & Whitney segment supplies aircraft engines for commercial, military, business jet, and general aviation markets; and provides aftermarket maintenance, repair, and overhaul, as well as fleet management services. The company's UTC Aerospace Systems segment provides electric power generation, power management, and distribution systems; air data and aircraft sensing systems; engine control, intelligence, surveillance, and reconnaissance systems; engine components; environmental control systems; fire and ice detection, and protection systems; propeller systems; engine nacelle systems; aircraft lighting and seating, and cargo systems; actuation and landing systems; space products and subsystems; and aftermarket services. United Technologies Corporation offers its services through manufacturers' representatives, distributors, wholesalers, dealers, retail outlets, and sales representatives, as well as directly to customers. United Technologies Corporation was founded in 1934 and is headquartered in Farmington, Connecticut. |
| Bombardier Inc. | Bombardier Inc., together with its subsidiaries, manufactures and sells transportation equipment worldwide. The company operates in four segments: Business Aircraft, Commercial Aircraft, Aerostructures and Engineering Services, and Transportation. The Business Aircraft segment designs, manufactures, and provides aftermarket support for Learjet, Challenger, and Global business jets. The Commercial Aircraft segment designs and manufactures a portfolio of commercial aircraft in the 60- to 150-seat categories, including Q400 turboprops; the CRJ700, 900, and 1000 regional jets; and CS100 and CS300 mainline jets, as well as provides aftermarket support services. The Aerostructures and Engineering Services segment designs and manufactures aircraft structural components, such as engine nacelles, fuselages, and wings; and provides aftermarket component repair, overhaul, and other engineering services. The Transportation segment offers a range of products and services in the rail industry, including rolling stock; system and signaling systems; supply chain, spare parts inventory management, obsolescence management, and technical support services; fleet and operations management services; and asset life management, component re-engineering, and overhaul services. The company was formerly known as Bombardier Limited. Bombardier Inc. was founded in 1942 and is headquartered in Montréal, Canada. |
| Honeywell International Inc. | Honeywell International Inc. operates as a diversified technology and manufacturing company worldwide. It operates through four segments: Aerospace; Home and Building Technologies; Performance Materials and Technologies; and Safety and Productivity Solutions. The Aerospace segment supplies products, software, and services for aircraft and vehicles that it sells to original equipment manufacturers and other customers in various markets, including air transport, regional, business and general aviation aircraft, airlines, aircraft operators, defense and space contractors, and automotive and truck manufacturers. The Home and Building Technologies segment provides products, software, solutions, and technologies that help homes owners, commercial building owners, and occupants, as well as electricity, gas, and water providers. The Performance Materials and Technologies segment develops and manufactures advanced materials, process technologies, and automation solutions. The Safety and Productivity Solutions segment provides products, software, and connected solutions to customers that enhance productivity, workplace safety, and asset performance. The company was founded in 1920 and is based in Morris Plains, New Jersey. |
| Thales S.A. | Thales S.A. provides various solutions for customers in the aerospace, space, defense, security, and ground transportation markets. The company operates through three segments: Aerospace, Transport, and Defence & Security. The Aerospace segment offers aircraft control systems; and electrical generation and conversion, and in-flight entertainment and connectivity systems, as well as offers air traffic management and maintenance services. The company offers on-board electronic systems and navigation aids, including cockpit display systems for optimized flight management and piloting; and space systems and solutions in the fields of telecommunications, radar, and optical observation of the earth, satellite navigation, and exploration of the universe. It also provides flight simulators for various European defense programs; training for pilots, primarily helicopters; microwave subsystems for the space and defense, telecommunications, and civil industrial applications; and imaging subsystems for the medical radiology market. In addition, this segment engages in the design, integration, testing, operation, and commissioning of space systems for use in the government, science, defense, and security sectors. The Transport segment offers rail signaling systems for conventional and high speed mainline, freight, metro, and tram networks; critical information and cybersecurity systems that provide integrated and protected solutions to transport network operators; and ticketing solutions. The Defence & Security segment provides interoperable and secure information, and telecommunications systems, such as radio communication, network and infrastructure systems, protection systems, critical information systems, and cybersecurity products for military forces, security forces, and essential operators. The company was formerly known as Thomson-CSF and changed its name to Thales S.A. in 2000. Thales S.A. was founded in 1893 and is headquartered in Paris, France. |
| Meggitt PLC | Meggitt PLC designs and manufactures components and sub-systems for aerospace, defense, energy, medical, industrial, test, and automotive markets in the United Kingdom, rest of Europe, the United States, and internationally. It operates through Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems, and Meggitt Equipment Group segments. The Meggitt Aircraft Braking Systems segment offers anti-skid, auto braking, brake-by-wire, and integrated brake metering/anti-skid brake control systems; carbon, rotor, electrically-actuated, and steel brakes; integrated tire pressure indicator systems/brake |

| Company | Description |
|---|--|
| | <p>temperature monitoring systems; and landing gear computers, park/emergency valves, auto spoiler deployment, other braking system hydraulic components, main and nose wheels, and tire pressure monitoring systems. The Meggitt Control Systems segment provides aerospace valves, air-oil separators, and retimet filters; heat exchangers; high pressure ducting and flexible joints; electro-mechanical fans, motors, compressors, controllers, and pumps; and industrial fuel and bleed air control valves, and ground fueling products, as well as aircraft fire protection and control systems. The Meggitt Polymers & Composites segment offers fuel containment and systems, sealing solutions, and advanced composites for the aerospace, marine, and energy sectors. The Meggitt Sensing Systems segment provides sensing, monitoring, power, and motion systems for the aerospace and defense, energy, industrial, and specialty sectors. The Meggitt Equipment Group segment primarily engages in the non-engine actuation, military, and energy heat-exchangers businesses. The company was formerly known as Meggitt Holdings Public Limited Company and changed its name to Meggitt PLC in April 1989. Meggitt PLC was founded in 1947 and is based in Christchurch, the United Kingdom.</p> |
| HEICO Corporation | <p>HEICO Corporation, through its subsidiaries, designs, manufactures, and sells aerospace, defense, and electronic related products and services in the United States and internationally. The company's Flight Support Group segment provides jet engine and aircraft component replacement parts; thermal insulation blankets and parts; renewable/reusable insulation systems; and specialty components for aerospace and industrial original equipment manufacturers, and the United States government. This segment also distributes hydraulic, pneumatic, structural, mechanical, and electro-mechanical components for the commercial, regional, and general aviation markets; and offers repair and overhaul services for jet engine and aircraft component parts, avionics, instruments, composites, and flight surfaces of commercial airlines, as well as for avionics and navigation systems, subcomponents, and other instruments utilized on military aircrafts. Its Electronic Technologies Group segment provides electro-optical infrared simulation and test equipment; electro-optical laser products; electro-optical, microwave, and other power equipment; electromagnetic and radio interference shielding; high-speed interface products; high voltage interconnection devices; high voltage advanced power electronics; power conversion products; and underwater locator beacons. This segment also offers traveling wave tube amplifiers and microwave power modules; three-dimensional microelectronic and stacked memory products; harsh environment connectivity products and custom molded cable assemblies; radio frequency and microwave amplifiers, transmitters, and receivers; and high performance communications and electronic intercept receivers and tuners. The company serves the U.S. and foreign military agencies; prime defense contractors; and commercial and defense satellite and spacecraft equipment manufacturers. HEICO Corporation was founded in 1949 and is headquartered in Hollywood, Florida.</p> |
| Teledyne Technologies Incorporated | <p>Teledyne Technologies Incorporated provides instrumentation, digital imaging, aerospace and defense electronics, and engineered systems in the United States, Canada, the United Kingdom, and internationally. The company's Instrumentation segment offers monitoring and control instruments for marine, environmental, industrial, and other applications, as well as electronic test and measurement equipment; and power and communications connectivity devices for distributed instrumentation systems and sensor networks deployed in mission critical and harsh environments. Its Digital Imaging segment provides image sensors and digital cameras for use in industrial, scientific, medical, and photogrammetry applications; and hardware and software for image processing in industrial and medical applications, as well as manufacturing services for micro electro-mechanical systems. This segment also offers light detection and ranging systems; focal plane arrays, sensors, and subsystems; and image processing algorithms and infrared camera systems. The company's Aerospace and Defense Electronics segment provides electronic components and subsystems, and communications products, including defense electronics; harsh environment interconnects; data acquisition and communications equipment for aircraft; components and subsystems for wireless and satellite communications; and general aviation batteries. Its Engineered Systems segment offers systems engineering and integration, advanced technology development, and manufacturing solutions for defense, space, environmental, and energy applications; and designs and manufactures hydrogen/oxygen gas generators, electrochemical and thermoelectric energy systems, and small turbine engines. The company markets and sells its products and services through sales forces, third-party distributors, and commissioned sales representatives. Teledyne Technologies Incorporated was founded in 1960 and is headquartered in Thousand Oaks, California.</p> |
| Woodward, Inc. | <p>Woodward, Inc. designs, manufactures, and services energy control and optimization solutions for the aerospace, industrial, and energy markets worldwide. Its Aerospace segment provides fuel pumps, metering units, actuators, air valves, specialty valves, fuel nozzles, and thrust reverser actuation systems for turbine engines and nacelles; and flight deck controls, actuators, servocontrols, motors, and sensors for aircraft that are used on commercial and private aircrafts and helicopters, as well as in military fixed-wing aircrafts and rotorcrafts, weapons, and defense systems. It also offers aftermarket repair, overhaul, and other services to commercial airlines, turbine original equipment manufacturer (OEM) repair facilities, military depots, third party repair shops, and other end users. This segment sells its products to OEMs, tier-one suppliers, and prime contractors, as well as through aftermarket sales of components, such as provisioning spares or replacements. The company's Industrial segment designs, produces, and services systems and products for the management of fuel, air, fluids, gases, electricity, motion, and combustion. Its products include actuators, valves, pumps, injectors, solenoids, ignition systems, speed controls, electronics and software, power converters, and devices that measure, communicate, and protect electrical distribution systems for use in industrial gas turbines, steam turbines, reciprocating engines, electric power generation and power distribution systems, wind turbines, and compressors. This segment sells its products, aftermarket products, and other related services to OEMs through an independent network of distributors, as well as directly to end users. Woodward, Inc. was founded in 1870 and is headquartered in Fort Collins, Colorado.</p> |
| China Aerospace Times Electronics CO., LTD. | <p>China Aerospace Times Electronics Co., Ltd. manufactures and sells aerospace electronic products primarily in China. It offers high-performance sensors, radio measurement and control systems, special electronic communication products, automatic tracking systems, and data collection products. The company also provides transmission processing systems, satellite television broadcasting systems, digital cable television network equipment, satellite communications earth stations, precision and structural components, ground engineering monitoring and control stations, and electronic support equipment, as well as rockets, satellites, ships, aircrafts, and other products supporting the use of nuclear energy. In addition, it offers various electrical connectors, relays,</p> |

| Company | Description |
|-------------------------------------|---|
| | electronic equipment, cable networks and switches equipment, GPS/GLONASS/Beidou satellite navigation applications, and terminal equipment for use in various types of satellites and rocket vehicles; and ground communication measurement and control equipment, and industrial automation and control equipment. The company is based in Wuhan, China. |
| Esterline Technologies Corporation | Esterline Technologies Corporation designs, manufactures, and markets engineered products and systems primarily for aerospace and defense customers in the United States and internationally. It operates through three segments: Avionics & Controls, Sensors & Systems, and Advanced Materials. The Avionics & Controls segment offers global positioning systems, head-up displays, enhanced vision systems, and electronic flight management systems for control and display applications; lighted push-button and rotary switches, keyboards, lighted indicators, panels, and displays; and control sticks, grips, wheels, and switching systems. This segment also provides military personal communication equipment, primarily headsets, handsets, and field communications equipment; keyboards, keypads, and input devices that integrate cursor control devices, barcode scanners, displays, video, and voice activation and touch screens; and instruments for point-of-use and point-of-care diagnostics. The Sensors & Systems segment develops and manufactures high-precision temperature, pressure, and speed sensors; electrical interconnection systems; electrical power switching, control and data communication devices, and other related systems; and micro packaging, planet probe interconnectors, launcher umbilicals, and composite connectors. The Advanced Materials segment develops and manufactures silicone rubber and other elastomer products, such as clamping devices, thermal fire barrier insulation products, sealing systems, and tubing and coverings; lightweight metallic insulation systems; thermal protection products; and molded fiber cartridge cases, mortar increments, igniter tubes, and other combustible ordnance components. The company markets and sells its products through direct internal sales, manufacturer representatives, and distributors. Esterline Technologies Corporation was founded in 1967 and is headquartered in Bellevue, Washington. |
| RSL Electronics Ltd. | RSL Electronics Ltd. develops, manufactures, and sells control, utilities and diagnostics, and prognostics systems for aerospace, energy, and defense sectors in Israel and internationally. It provides diagnostic engine starting system controllers, digital temperature control amplifiers, break control systems, digital generator control units, diagnostic fuel management controllers, and primary power distribution control systems for aircrafts. The company also offers total health and usage management system for helicopters and UAVs; and CMS for wind turbines, hydro-electric turbines, and steam turbines, as well as for trains and railway tracks. In addition, it provides muzzle velocity radar systems to measure the velocity of a range of ammunition for field artillery, mortars, naval guns, and anti-aircraft guns. RSL Electronics Ltd. is based in Migdal Ha'Emek, Israel. |
| FIRSTEC Co., Ltd. | FIRSTEC Co., Ltd. designs, manufactures, and sells firing control, guidance control, actuation, and environmental control systems, as well as test and inspection equipment for use in land, sea, and air forces worldwide. The company provides environmental control systems for POD, air data systems, throttle quadrant systems, control display units, combined systems, NVIS and cockpit panels, fuel systems, MFD, attitude control systems, landing/search lights, FADEC, wire harness/electrical kits, fire extinguishing systems, and simulators for the aerospace industry. It also offers guided weapon products, such as actuation systems, guidance control systems, fire control systems, fuel propulsion systems, cables, valves, and electrical parts used in surface-to-air missiles, anti-submarine missiles, ship-to-ship missiles, and LOGIR applications. In addition, the company provides driver panel units, driving systems, speed sensor kits, slip rings, cables and electrical kits, chute, control panels, A/Z indicators, firing interrupters, instrument panels, gear boxes, automatic fire extinguishers, winches, radar components, etc., as well as develops projects for military intelligent robots and ranger robots; and offers rocking arms assemblies, safety firing gear assemblies, mine laying controllers and systems, signal ejectors, and deceiving systems against torpedo for use in warship guns, minelayers ships, submarines, etc. Further, it offers unmanned ground vehicles for demonstration of explosives, and ordnance disposal and reconnaissance; UAV, such as fuel systems, full-scale structure test products, and ground support equipment; and GCS, de-icing devices, navigation devices, ground control systems, and docking stations for intelligence, surveillance, and reconnaissance applications. Additionally, the company provides face recognition solutions. FIRSTEC Co., Ltd. was founded in 1975 and is headquartered in Changwon, South Korea. |
| Environmental Tectonics Corporation | Environmental Tectonics Corporation, together with its subsidiaries, operates as an engineered solutions company in the United States and internationally. It operates through two segments, Aerospace Solutions and Commercial/Industrial Systems (CIS). The Aerospace Solutions segment engages in the design, manufacture, and sale of software driven products and services to create and monitor the physiological effects of flight, including high performance jet tactical flight simulation, upset recovery and spatial disorientation, and suborbital and orbital commercial human spaceflight systems; altitude chambers; and advanced disaster management simulators (ADMS), as well as integrated logistics support services. This segment offers integrated aircrew training systems to commercial, governmental, and military defense agencies; and training devices, including altitude and multiplace chambers to governmental and military defense agencies, and civil aviation organizations; and ADMS to governmental organizations, original equipment manufacturers, fire and emergency training schools, universities, and airports. The CIS segment is involved in the design, manufacture, and sale of steam and gas sterilizers to medical device and pharmaceutical manufacturers; environmental testing and simulation devices primarily to commercial automotive, as well as to heating, ventilation, and air conditioning manufacturers; and monoplace chambers to hospitals and wound care clinics. This segment also provides parts, as well as upgrade, maintenance, and repair services. The company markets its products through independent sales representatives and distributors. Environmental Tectonics Corporation was founded in 1969 and is headquartered in Southampton, Pennsylvania. |

Source: S&P Capital IQ

Appendix D – Target company descriptions

| Target Company | Description |
|-----------------------------|---|
| Mentor Graphics Corporation | Mentor Graphics Corporation provides electronic design automation software and hardware solutions to design, analyze, and test electro-mechanical systems, electronic hardware, and embedded systems software worldwide. It offers printed circuit boards; Scalable Verification tools; Questa platform to verify systems and integrated circuits (ICs); FastSPICE, Eldo, and ADVance MS analog/mixed signal simulation tools; and Veloce hardware emulation system. The company also provides Calibre DRC and Calibre LVS-H physical verification tools; Calibre xRC and xACT transistor-level extraction and device modeling tools; Calibre resolution enhancement technology tools; Calibre OPCverify tool to check and report the mask pattern corrections; Calibre LFD for design for manufacturing (DFM) area; Calibre CMPAnalyzer tools; Calibre MPCpro for systematic errors; Calibre nmMPC products; Calibre PERC to check electrical design of an IC; and Tessent suite of integrated silicon test products. In addition, it offers PCB-FPGA Systems Design software; products for DFM and manufacturing execution systems; FloEFD three-dimensional computational fluid dynamics and heat transfer analysis tools; FloTHERM three-dimensional computational fluid dynamics software; FloMaster one-dimensional computational fluid dynamics analysis software; and MicReD T3Ster temperature measurement systems, as well as MicReD Power Tester 1500A that tests electronic power components. Further, the company provides software, tools, and professional engineering services; and methodology development, enterprise integration, and deployment services. It serves communications, computer, consumer electronics, semiconductor, networking, multimedia, military and aerospace, and transportation industries. Mentor Graphics Corporation was founded in 1981 and is headquartered in Wilsonville, Oregon. As of March 30, 2017, Mentor Graphics Corporation operates as a subsidiary of Siemens Industry, Inc. |
| Orolia SA | Orolia SA provides positioning, navigation, timing, and supervision solutions for various applications in France and internationally. It supports the integration of resilient PNT technology to enable mission-critical applications; and enhances operations and reduces risk for aerospace and defense, and commercial markets. The company also offers search and maritime domain awareness solutions, including emergency preparedness, vessel management, and rescue operations. In addition, it provides life saving and tracking solutions, such as distress beacons, satellite connectivity infrastructure, emergency response management, monitoring/positioning software maritime fleets, airlines, aircraft manufacturers, military organizations, and other companies. Orolia SA is headquartered in Valbonne, France. As of September 21, 2016, Orolia SA was taken private. |
| Herley Industries, Inc. | Herley Industries, Inc. was acquired by Ultra Electronics Defense, Inc. Herley Industries, Inc. engages in the design, development, and manufacture of microwave technology solutions for the defense, aerospace, and medical industries worldwide. The company offers defense electronics, including command and control, IFF and HF communication, avionics/command and control, communication, data acquisition and telemetry, flight termination, GPS, and automatic carrier and tactical instrument landing systems; distributed data acquisition encoders, broadband RF power amplifiers, microwave sub-systems, radar altimeters, radar and threat simulators, radar transponders and test sets, antennas, and telemetry transmitters and receivers; and attenuators and modulators, integrated microwave assemblies, high-power switches, limiters, multifunction assemblies, phase shifters, switch matrices, switches, microwave power amplifiers, millimeter wave components, RF switches, digitally tuned oscillators, microwave synthesizers, voltage controlled oscillators, ECM and radar target generators, EW threat simulators, and radar environment simulators. It also offers medical/scientific products, which include rack-mounted amplifiers and systems that include detection/protection circuitry, built-in power supplies, front panel metering, and digital and/or analog interface controls; phase locked signal sources comprising coaxial and dielectric resonator oscillators, and crystal oscillators; and synchronous optical network products, including digital phase locked clock regenerators and voltage tuned dielectric resonator oscillators. The company was founded in 1965 and is headquartered in Lancaster, Pennsylvania. It has manufacturing locations in Lancaster, Pennsylvania; Woburn, Massachusetts; Farmingdale and Whippany, New York; Jerusalem, Israel; Farnborough, United Kingdom; and Melbourne and Fort Walton, Florida. |
| Exelis Inc. | Exelis Inc. provides command, control, communications, computers, intelligence, and surveillance and reconnaissance (C4ISR) electronics and systems in the United States and internationally. Its C4ISR Electronics and Systems segment offers intelligence, surveillance, and reconnaissance systems; integrated electronic warfare systems; and electronic attack and release systems, including aircraft-armament suspension and release equipment, weapons interface systems, and unmanned aerial vehicles. This segment also provides radar, electronic warfare, and signal intelligence systems; interference cancellation systems and tactical wearable radios; ground night vision goggles and spare image intensifier tubes; positioning, navigation, and timing systems; and composite aerospace assembly structures, sub-assemblies, and components. In addition, it offers satellite based communications systems, commercial wireless technologies, and information assurance, as well as tagging, tracking, and locating systems; and mine sweeping systems, shipboard command and control systems, data link systems, submarine flank and passive towed arrays, and acoustic sensors. The company's Information and Technical Services segment provides systems integration, network design and development, air traffic management, cyber, intelligence, advanced engineering, and space launch and range-support services. Exelis Inc.'s customers include United States (U.S.) Department of Defense and its prime contractors, U.S. Government intelligence agencies, the National Aeronautics and Space Administration, the Federal Aviation Administration, allied foreign governments, and commercial customers. The company was formerly known as ITT DCO, Inc. and changed its name to Exelis Inc. in July 2011. Exelis Inc. was incorporated in 2011 and is headquartered in McLean, Virginia. As of May 29, 2015, Exelis Inc. operates as a subsidiary of Harris Corporation. |

| Target Company | Description |
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| Measurement Specialties Inc. | <p>Measurement Specialties, Inc. designs, develops, and manufactures sensors and sensor-based systems for original equipment manufacturers and end users. Its sensor products comprise pressure components, sensors, and transducers; load cells; linear variable differential transformers, rotary position transducers, and magneto-resistive sensors and magnetic encoders; long stroke linear displacement, magnetostrictive, and hi-rel rotary sensors; traffic and custom piezoelectric film sensors; accelerometers; relative humidity sensors; fluid monitoring sensors; thermistors and resistance temperature detectors; pulse oximetry and X-ray detection sensors; angular rate measurement sensors; and static and dynamic torque/force sensors. The company's technologies comprise piezoresistive silicon, polymer and ceramic piezoelectric materials, application specific integrated circuits, micro-electromechanical systems, foil strain gauges, electromagnetic force balance systems, fluid capacitive sensors, linear and rotational variable differential transformers, anisotropic magneto-resistive devices, electromagnetic displacement sensors, hygroscopic capacitive structures, ultrasonic measurement systems, and high precision submersible hydrostatic level detection technologies. Its sensors are used for engine and vehicle, medical, general industrial, consumer and home appliance, military/aerospace, environmental water monitoring, and test and measurement applications. Measurement Specialties, Inc. sells its products under the MEAS brand name through regional sales managers, distributors, and outside sales representatives primarily in North America, Asia, and Western Europe. The company was founded in 1981 and is headquartered in Hampton, Virginia. As of October 9, 2014, Measurement Specialties Inc. operates as a subsidiary of TE Connectivity Ltd.</p> |
| Teac Corporation | <p>TEAC Corporation produces and sells audio and information equipment worldwide. Its audio products comprise high-end and general audio products, audio equipment for music production, and professional audio products. The company's information products include recording and reproducing equipment for aircraft, medical image recording and reproducing products, supporting systems for individual nursing care, and optical drives for industrial market, as well as measurement products, such as transducers and data recorders. It also provides commissioned design and contract manufacturing solutions; business solutions; and repair and maintenance services. The company was founded in 1953 and is headquartered in Tama, Japan. TEAC Corporation is a subsidiary of Gibson Brands, Inc.</p> |

Source: S&P Capital IQ

Appendix E – Glossary

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| \$ or C\$ | Canadian dollars |
| AEH | Anodyne Electronics Holding Corp. |
| AEM | Anodyne Electronics Manufacturing Corporation |
| ASIC | Australian Securities Investment Commission |
| Avionics | The manufacturing of electronics fitted in aircraft |
| CAPM | Capital asset pricing model |
| CVM™ | Comparative Vacuum Monitoring |
| DCF | Discounted cash flow method and the estimated realisable value of any surplus assets |
| Delta | Delta Air Lines, Inc. |
| Delta Agreement | The commercial agreement in relation to the supply and use of the CVM™ technology with Delta Air Lines, Inc. |
| FME Method | Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets |
| FSG | The Financial Services Guide |
| FY15 | Financial year ended 30 September 2015 |
| FY16 | Financial year ended 30 September 2016 |
| FY17 | Financial year ended 30 September 2017 |
| GTCF, Grant Thornton or Grant Thornton Corporate Finance | Grant Thornton Corporate Finance Pty Ltd |
| Lewis | Mr Ray Lewis |
| NAV Method | Amount available for distribution to security holders on an orderly realisation of assets |
| OEM | Original Equipment Manufacturers |
| Proposed Transaction | AEH to acquire all the issued capital of AEM for a total cash consideration of C\$10 million |
| Quoted Security Price Method | Quoted price for listed securities, when there is a liquid and active market |
| RG 111 | Regulatory Guide 111 Content of expert's report |
| RG 112 | Regulatory Guide 112 Independence of experts |
| SMS or the Company | Structural Monitoring Systems Plc |
| SR&ED | Scientific Research and Experimental Development |
| Veitch | Mr Dave Veitch |
| WACC | Weighted average cost of capital |