



## **APPENDIX 4C – SEPTEMBER QUARTERLY REPORT AND BRIEF COMPANY UPDATE**

### **Highlights**

- **Cash at bank as at 30<sup>th</sup> September 2018 approximately \$A3.019 million**
- **AEM increases CVM™ sensor capacity and implements full CVM™ platform supply chain review**
- **SMS completes dual 757 SB application CVM™ “Kit” design and pivots to crucial B737-NG application**
- **SMS hires John Linn, ex. Boeing Senior Technical Fellow as a critical interface resource for all OEM and airline operator programs**

Structural Monitoring Systems Plc (“SMS” or “the Company”) (ASX: SMN) is pleased to release its September Quarterly Report and 4C for the period ending 30<sup>th</sup> September 2018.

### **SMS Canada/AEM Overview**

AEM's legacy operations remain well on-track - with YTD financial performance in line with expectations. For the Sep-18 quarter, total revenue was approximately **\$C3.548 million**. During the quarter, the Board increased direct financial investment in AEM's CVM™ platform vertical as a critical prerequisite for expected pending approvals in the coming twelve months for multiple Boeing applications that will utilize CVM™. In addition to increased staff capacity, and a markedly enlarged CVM™ equipment production facility, AEM also ordered a further laser machine used to produce CVM™ sensors. The combined effect of these investments has resulted in a quadrupling of SMS Canada's maximum production capability - to in excess of 4,000 CVM™ sensors per month.

Importantly, AEM has also implemented a detailed and in-depth review of all facets of the CVM™ supply chain to maximize redundancy, decrease lead-times for requisite materials and increase inventory levels of all key components where necessary. These measures will ensure on-time delivery of sensors and related equipment, with a key priority to fully eliminate bottlenecks, backlogs etc. which might hinder the Company's key commercial goal of maintaining production lead times to less than 4 weeks for all CVM™ equipment orders.

### **SMS Operational Progress**

SMS is pleased to report that the process of identification, submission and formal approval for multiple CVM™ equipment applications, on multiple aircraft types continues to progress materially. Delta Air Lines, Inc. (“Delta”) has submitted formal approval requests authorizing the use of CVM™ as a full alternative means of inspection for multiple applications on the B757, B737, A318, A319, A320, A321 and A330 aircraft types.

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Delta had specifically prioritized two key B757 applications for expedited approval due to Delta's maintenance scheduling which will see most of their B757 fleet "in-hangar" during 2019. SMS has completed the installation design and built complete CVM "Kits" for these applications. Prior to commencing installations, Delta is awaiting further guidance from Boeing with regards to a potential new Service Bulletin related to this area of the aircraft. The Company anticipates the timing of the guidance from Boeing to be released by year-end 2018 – at which point, it is expected that Delta will make a formal determination with respect to potential CVM™ installations.

In regard to the dramatically larger, and more commercially important, B737-NG aircraft program, multiple operators have now engaged with SMS with respect to one high-impact application which has resonated with many benchmark global 737-NG fleets. This application is a particularly difficult, time-consuming and out-of-cycle inspection, with a short inspection interval once the initial inspection cycle threshold is met. This application represents a significant commercial opportunity for SMS given that there are circa-7,000 B737-NG aircraft in service globally – and key operators that SMS is already directly engaged with represent near 2,000 aircraft of this total.

The ability to use CVM™ sensors to directly eliminate the critical in-hangar downtime caused by a multi-day inspection, coupled with a short repeat inspection interval cycle, represents a very attractive business case for the operators. SMS personnel have been on-aircraft with Boeing personnel to review the very large application area, and a full preliminary CVM™ "kit" design has already been established. Next steps will include finalization of the various CVM™ sensor designs that will be installed, completion of the CVM™ "Kit" (with all peripheral equipment required for installation) and the submission of agreed validation protocols - with the goal of achieving the requisite OEM (and subsequent regulatory) approvals. Given the significant importance of the B737-NG aircraft globally, and the number of operators now approaching the cycle threshold that trigger the required mandatory, multi-day inspection, we believe all parties are aligned to review, develop and formally approve a CVM™ solution.

Finally, SMS has been invited by a US operator to view the antenna mount area of the WIFI system on aircraft for potential CVM™ solutions. The inspection is typically completed overnight in the maintenance hangar. However, it is a huge burden for the operator given the frequency of the mandated inspection, the complexity of the maintenance tasks required and the distinct possibility that the aircraft is held out of service for an additional day due to a myriad of unforeseen delays in the inspection. This feedback dovetails with Delta's experience with their in-flight Wi-Fi system. Delta has also renewed their efforts to engage with the provider to pursue a CVM™ solution. SMS is very encouraged that multiple operators are now focused on these applications given the sheer number of aircraft affected and the ability of CVM™ to materially reduce inspection duration and aircraft downtime.

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### **Global Marketing Update and Outlook**

The Company's strategic plan of developing a formal outreach programme with some of the largest global operators to introduce CVM™ technology to key engineering, maintenance and senior management/commercial personnel has continued to accelerate. SMS has now assembled a core group of major US and European airlines to engage the major OEM's to push for adoption of CVM™ for their respective fleets.

In this regard, the Company is also pleased to announce that during the quarter, John Linn, has been hired as a dedicated consultant to our core staff. John's career at Boeing spanned over 33 years, where he most recently served in senior roles including Technical Fellow and Senior Quality Assurance and Quality Control Engineer. He is a highly-regarded industry expert in non-destructive testing on airframes and was the key person inside Boeing to push for the inaugural approval of CVM™ as a full Service Bulletin revision for the center wing box section inspection on the B737-NG. John's primary role will be to interface with Boeing engineers and AEM staff to identify, validate and approve use cases for CVM™ on Boeing aircraft. The Company is honored to have John now working as a key member of our global team.

### **Disclaimer**

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

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

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

### **Financial Information**

Any pro forma and forecast financial information provided in this announcement is for illustrative purposes only and

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

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## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Structural Monitoring Systems plc

**ARBN**

106 307 322

**Quarter ended ("current quarter")**

30 September 2018

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	3,548	3,548
1.2 Payments for		
(a) research and development	(136)	(136)
(b) product manufacturing and operating costs	(2,023)	(2,023)
(c) advertising and marketing	(77)	(77)
(d) leased assets	-	-
(e) staff costs	(970)	(970)
(f) administration and corporate costs	(432)	(432)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(136)	(136)
1.7 Government grants and tax incentives	6	6
1.8 Other	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(219)</b>	<b>(219)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(23)	(23)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(23)</b>	<b>(23)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,251	3,251
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(219)	(219)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(23)	(23)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	10	10
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>3,019</b>	<b>3,019</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	3,455	3,383
5.2	Call deposits	-	-
5.3	Bank overdrafts	(436)	(132)
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>3,019</b>	<b>3,251</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

<b>Current quarter \$A'000</b>
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Director's fees
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**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

<b>Current quarter \$A'000</b>
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8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	2,127	436
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

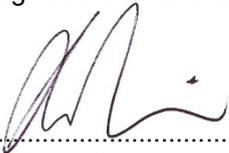
HSBC Operating loan, secured at 4.70%

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	72
9.2 Product manufacturing and operating costs	2,057
9.3 Advertising and marketing	152
9.4 Leased assets	-
9.5 Staff costs	1,032
9.6 Administration and corporate costs	410
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>3,723</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  .....  
(Company Secretary)

31 October 2018  
Date: .....

Sam Wright  
Print name: .....

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.