

Appendix 4D**Half-Year Report for the period ended 31 December 2019****Results for announcement to the Market****Financial Performance**

Structural Monitoring Systems Plc - Consolidated			
(AUD'000)	Half-year ended 31 Dec 2019	Half-year ended 31 Dec 2018	Movement %
Revenue	8,763	7,114	24%
(Loss) before tax attributable to members	(1,721)	(1,857)	(7%)
(Loss) after tax attributable to members	(1,753)	(1,890)	(8%)

Review of Operations

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

Dividends

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

Earnings Per Share

	Half-year ended 31 Dec 2019	Half-year ended 31 Dec 2018
(Loss) per share (basic & diluted)	(1.51 cents)	(1.65 cents)

Net Tangible Asset Backing

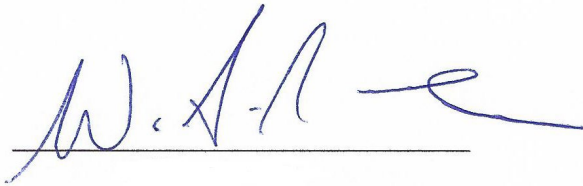
	Half-year ended 31 Dec 2019	Half-year ended 31 Dec 2018
Net tangible asset backing	7.91 cents	7.91 cents

Compliance Statement

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

Signed in accordance with a resolution of Directors.

On behalf of the Directors



William Rouse

Executive Chairman

Dated: 26 February 2020



STRUCTURAL MONITORING SYSTEMS PLC

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2019

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CORPORATE DIRECTORY

Directors

William Rouse
Executive Chairman

Michael Reveley
Executive Director

Terry Walsh
Non-Executive Director

Stephen Forman
Non-Executive Director

Chief Executive Officer

Toby Chandler

Company Secretary

Sam Wright

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Statutory Auditors

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

Stock Exchange Listing

Australian Securities Exchange
Home Exchange: Perth, Western Australia

ASX Code

Shares (CDI's) SMN

Important Notices

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

Structural Monitoring Systems PLC

Directors' Report

The Directors submit their report for the half-year ended 31 December 2019

DIRECTORS

The names of the Group's directors in office during the half-year and until the date of this report are as below.

- William Rouse Executive Chairman
- Michael Reveley Executive Director
- Terry Walsh Non-Executive Director
- Stephen Forman Non-Executive Director (appointed 1 November 2019)

Directors were in office for the entire period unless stated otherwise.

REVIEW OF OPERATIONS

Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX: SMN) is pleased to provide a review of operations for the half-year period.

Manufacturing – avionics/audio ("AEM")

AEM's platform performance continues to impress, with top-line revenue for the first 6 months of the current fiscal year at \$A8.75 million v \$A7.02 million (+25%) for the same period in the prior year. Normalised EBITDA for the first 6 months was ~\$A1.57 million v \$A0.88 million for the same period in the previous year. In line with the significant uplift in revenues AEM has continued to build inventory levels to \$7.41 million (30 June 2019: \$6.16 million). Budgeted revenue for the second half of the current year is \$A10.56 million (vs \$A9.90 million in the prior year), which would produce a full-year revenue result of circa-\$A19.31 million – materially up from any prior year's performance in AEM's operating history. The improvement in financial performance has arisen due to a combination of the introduction of new products and new territories. Early indications are that the growth experienced in the first half of this financial year will continue in the second half, and given the performance to date, and outlook, the Board is confident of a demonstrably stronger full year revenue and EBITDA result.

CVM™ ("SMS")

FAA/IP Approval Progress:

SMS and our industry partners continue to work diligently with the Federal Aviation Administration ("**FAA**") to receive formal Regulator approval for commercial CVM™ technology installations related to current B737-NG Wi-Fi inspection protocols. As previously communicated with shareholders in the December 10th Update, SMS is awaiting release of an Issue Paper ("**IP**"), an FAA-generated industry guidance document. The IP will officially communicate the FAA protocols and recommendations to achieve approvals for CVM™ technology.

As communicated directly from the Company's industry partners, who are collectively in direct communication with the FAA, this initial IP document has now been created for internal FAA use *and only three of the approximate nine required signatures remain to be executed by FAA management*. Given this information, the final release of the IP is now imminent.

Once released, there will be a brief industry review period, during which time SMS will provide feedback and/or comments (if any) to the FAA. This will likely be completed within a week of the IP release. Post this review and comment period, the FAA will issue its final version of the IP. Once received, Delta Engineering ("**DE**") and Sandia Laboratories ("**Sandia**") will formally establish a testing protocol regime in order to satisfy any validation and verification requirements communicated in the final IP.

Structural Monitoring Systems PLC

Directors' Report (cont'd)

REVIEW OF OPERATIONS (CONT'D)

SMS has been informed that this DE and Sandia testing phase *will be completed within 45 days of its commencement*. The resulting data package will then be sent to the FAA for review. SMS has already provided the CVM™ sensor kits and equipment required for this testing phase to both DE and Sandia in order to materially expedite the brevity of the timeline for this testing.

As of today, given feedback from both DE and Sandia, the Company now anticipates that the full and final approval of an FAA-issued Supplemental Type Certificate ("STC") for the B737-800 Wi-Fi application should be received and in-hand in late-Q2/early-Q3. This timeline takes into account likely foreseeable FAA response times which adhere to the previous norms established for similar industry approvals.

Commercial Activities and Business Development:

Immediately upon STC approval, SMS will rapidly engage commercially with several airline operators to both schedule and actively install CVM™ equipment on operating fleet aircraft. Delta Air Lines ("**Delta**") has requested, and SMS has already provided, preliminary kit pricing for the B737-NG Wi-Fi application for Delta's engineering and budgetary review and approval. Once approved by Delta, SMS expects installs on the Delta B737-800 fleet.

As stated above, the FAA IP is the critical regulatory step permitting SMS to move forward with clear certainty in the effort to commercialise the Company's CVM™ technology in the global airline industry. SMS executives continue to maintain a close and continuous outreach and contact protocol with multiple major airlines in the United States and Europe. These activities naturally include regular updates to the airlines on the status of the FAA IP. The Company continues to receive a high level of interest and support from all engagement airlines, and the constant communication in this regard is that they are willing to move the current engagement meaningfully further once the first STC approval is granted.

In summary, the level of enthusiasm from the airline industry is high, and SMS management remain confident that major airlines will execute CVM™ orders soon after the first FAA approval is granted. Further, at the time of this approval, SMS will *immediately* begin the process of obtaining multiple in-series, and parallel, approvals for additional STC's on B737-NG and other aircraft types. This will also involve direct and ongoing engagement with *both* the FAA, *and* the European Aviation Safety Agency ("**EASA**") in the months ahead.

Revised SLA with The Boeing Company

SMS and Boeing executed a revised and updated SLA agreement in Q2-2019, as previously communicated. This document was executed in parallel with the progression of the aft-pressure bulkhead ("APB") inspection approval process within Boeing. This milestone leaves SMS with one final document, a Technical Consulting Agreement ("TCA"), to be executed with Boeing in relation to the current 737-NG APB project. The TCA will identify in detail the engineering data support and analysis required from the OEM and the pricing associated with providing such support.

SMS anticipates the finalisation of this document in the very near term. The TCA will pave the way for how the Company will address all future CVM™ approvals which may also require Boeing engineering input and technical analysis. The associated costs for all Boeing work required to approve SMS CVM™ Kits for all future Service Bulletin, Airworthiness Directive and maintenance tasks on behalf of our global operators will be covered under individual TCA's. Significant work has been completed on the TCA, by both Boeing and SMS personnel, and the Company expects to have an executed TCA in the near future. As such, at this juncture the Company has maintained the timing for approval of the Service Bulletin by Boeing will be obtained in Q1-2020.

Structural Monitoring Systems PLC

Directors' Report (cont'd)

REVIEW OF OPERATIONS (CONT'D)

Sikorsky Aircraft

The Company's most recent telecom with Sikorsky, hosted by Sandia Lab's Dr Dennis Roach, indicated a continuing strong interest in proceeding with CVM™ deployment. SMS and Sandia Labs have now completed an extensive series of general CVM™ performance tests for rotorcraft while working in concert with Sikorsky engineering. Multiple meetings have been held with Sikorsky Chief engineers and senior management to discuss the successful results and to take the next steps toward formal adoption of CVM™ solutions.

Sandia Labs and the FAA have provided Sikorsky with a template for a formal validation/certification plan. Sikorsky is currently using these guidelines to produce their validation plan to support specific applications and associated discussions with their FAA Aircraft Certification Office ("ACO"). Three distinct CVM™ commercial applications, that provide both tangible technical and economic benefits, have been identified on the Sikorsky S-92 aircraft. Near-term plans expected to be underway in the first half of 2020 include both certification testing and flight testing by a key operator of Sikorsky rotorcraft. Completion of this phase will then pave the way for formal regulatory approval, and subsequent adoption/installation, of CVM™ equipment on Sikorsky rotorcraft immediately thereafter.

Other Key Customer Activities:

In addition to the Company's primary B737 APB and multi-fleet Wi-Fi programs, throughout the year SMS has remained fully engaged with several major US and European carriers regarding the commercial deployment of SMS's CVM™ sensor technology. The level of interest in the industry remains very strong, and consistent feedback received regarding use of our sensor technology is highly indicative that once SMS receives any leading confirmation from the FAA that CVM™ is to be approved, these airlines will be immediately ready to discuss progression to key commercial applications.

Group Board appointments

On 1 November 2019, the Group welcomed Stephen Forman to the Board of Directors, where he was appointed an independent Non-Executive Director, as well as serving as the Group's new Head of Investor Relations.

Additionally, existing Board member, Will Rouse, agreed to assume the role of Executive Chairman of the Board for the Group. Will's operational role will continue as the main overseer of AEM's legacy business platforms.

Mike Reveley and Terry Walsh continue their Directors' roles. Operationally, Terry will continue to oversee the Group's Legal and Corporate Affairs, while Mike's operational role will also include bridging the all-important gap between SMS's primary business development activities (overseen by Rich Poutier) and the Group's key investor relations function, now overseen by Steve Forman. In this regard, Mike will work with, and directly support, both functions in every facet, ensuring also that informational flow is seamless and efficient with respect to these critical elements of the Group's overall platform.

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Structural Monitoring Systems PLC

Directors' Report (cont'd)

Operating Results

The Group incurred an after-tax loss for the half-year ended 31 December 2019 of \$1,752,845 (2018: \$1,889,700), a decrease of 7% on the prior period. The loss was attributable to the funding of commercialisation of CVM™ technology, pursuing the Delta programme and the costs associated with operating an ASX listed company in Australia. The loss was also attributable to share-based payment expenses incurred on the grant of shares and Performance Rights to directors, employees and consultants in the current and prior periods.

The Group recorded a gross profit of \$4,079,271 (2018: \$2,531,853), an increase of 61% on the prior period. The Group also recorded revenues of \$8,763,153 (2018: \$7,113,515), an increase of 23% on the prior period. Other key expenses during the period were consumables and raw materials used of \$4,683,882 (2018: \$4,581,662) and employee expenses of \$2,280,649 (2018: \$1,524,151). The movements were due to material growth in sales and turnover as well as recruitment of additional staff taking the number now employed to 107.

During the half-year the Company granted Performance Rights to directors, employees and consultants. The share-based payment expense recognised for the half-year was \$1,112,121 (2018: \$1,078,535). Full details of the share-based payments are disclosed in Note 6: Share-based payments in the notes to the condensed consolidated financial statements.

At the reporting date the Group had net assets of \$12,704,227 (30 June 2019: \$12,378,360).

As at 31 December 2019, the Group held cash at bank, net of borrowings, of \$539,564 (30 June 2019: \$1,561,849).

Future developments

In the short and medium-term the Group will focus on obtaining FAA approval and developing commercial sales of APB and Wi-Fi sensor applications.

Annual General Meeting

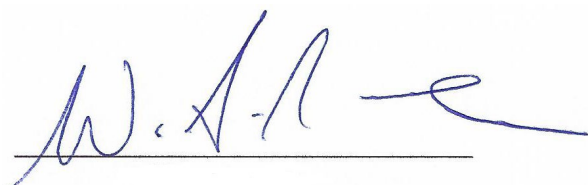
SMS held its Annual General Meeting of Shareholders at Level 4, 168 St Georges' Terrace, Perth on 12 December 2019.

All resolutions that were put to shareholders were passed by a poll.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

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

Signed in accordance with a resolution of the Directors.



William Rouse
Executive Chairman
Perth, Western Australia
26 February 2020

Structural Monitoring Systems PLC

Condensed Consolidated Statement of Comprehensive Income

For the Half-Year Ended 31 December 2019

		6 months to 31 Dec 2019 (unaudited)	6 months to 31 Dec 2018 (unaudited)
	Note	\$	\$
Continuing operations			
Revenue	5	8,763,153	7,113,515
Cost of sales		(4,683,882)	(4,581,662)
Gross profit		4,079,271	2,531,853
Other income		11,892	-
Depreciation and amortisation		(541,746)	(314,665)
Administrative and corporate expenses		(1,210,049)	(938,722)
Employee expense		(2,280,649)	(1,524,151)
Occupancy expenses		(16,396)	(28,143)
Research and development expenses		(202,801)	(222,006)
Sales and marketing expenses		(421,653)	(373,226)
Share-based payments	6	(1,112,121)	(1,078,535)
Loss from continuing operations before income tax and finance costs		(1,694,252)	(1,947,595)
Finance income		1,968	3,822
Finance costs		(58,376)	-
Foreign currency translations		29,731	86,841
Loss before income tax expense		(1,720,929)	(1,856,932)
Income tax expense		(31,916)	(32,768)
Net loss attributable to members of Structural Monitoring Systems Plc		(1,752,845)	(1,889,700)
Other comprehensive expense			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(1,639)	139,548
Other comprehensive expense		(1,639)	139,548
Total comprehensive (loss) for the period		(1,754,484)	(1,750,152)
Basic and diluted loss per share (cents per share)	7	(1.51)	(1.65)

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

Structural Monitoring Systems PLC

Condensed Consolidated Statement of Financial Position

As at 31 December 2019

		As at 31 December 2019 (Unaudited)	As at 30 June 2019 (Audited)
	Note	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		1,564,918	2,291,208
Trade receivables		2,642,984	3,333,770
Inventory	8	7,405,881	6,159,874
Other current assets	9	424,045	361,073
Total current assets		<u>12,037,828</u>	<u>12,145,925</u>
Non-current assets			
Plant & equipment		480,861	539,747
Right-of-use assets		456,664	-
Intangible assets and goodwill	10	3,494,134	3,684,593
Total Non-current assets		<u>4,431,659</u>	<u>4,224,340</u>
Total assets		<u>16,469,487</u>	<u>16,370,265</u>
LIABILITIES			
Current liabilities			
Trade and other payables	11	1,665,162	2,583,277
Borrowings		1,025,354	729,359
Lease liabilities		408,423	-
Tax payable		153,090	229,721
Total current liabilities		<u>3,252,029</u>	<u>3,542,357</u>
Non-current liabilities			
Lease liabilities		61,569	-
Deferred tax		451,662	449,548
Total non-current liabilities		<u>513,231</u>	<u>449,548</u>
Total liabilities		<u>3,765,260</u>	<u>3,991,905</u>
NET ASSETS		<u>12,704,227</u>	<u>12,378,360</u>
Equity			
Issued capital	12	31,936,778	31,932,333
Share premium account	12	35,626,279	35,105,783
Other reserves	13	1,181,166	(116,764)
Accumulated losses		(56,039,996)	(54,542,992)
TOTAL EQUITY ATTRIBUTABLE TO MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC		<u>12,704,227</u>	<u>12,378,360</u>

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

Structural Monitoring Systems PLC
Condensed Consolidated Statement of Cash Flows
For the Half-Year Ended 31 December 2019

	6 months to 31 Dec 2019 (Unaudited)	6 months to 31 Dec 2018 (Unaudited)
	\$	\$
Cash flows from operating activities		
Receipts from customers	9,448,766	7,559,104
Payments to suppliers and employees	(10,629,174)	(8,021,160)
Income taxes paid	(106,433)	(137,144)
Interest income	1,968	3,822
Interest expense	(40,168)	-
Net cash flows used in operating activities	(1,325,041)	(595,378)
Cash flows from investing activities		
Payments for plant and equipment	(73,324)	(104,351)
Net cash flows used in investing activities	(73,324)	(104,351)
Cash flows from financing activities		
Repayment of lease liability	(187,222)	-
Proceeds from issue of shares	530,788	-
Costs of issue	(5,847)	-
Net cash flows from financing activities	337,719	-
Net (decrease)/increase in cash and cash equivalents	(1,020,646)	(699,729)
Cash and cash equivalents at beginning of period	1,561,849	3,250,590
Effect of foreign exchange on balances	(1,639)	(87,535)
Cash and cash equivalents at end of period	539,564	2,463,326
Cash and cash equivalents	1,564,918	2,463,326
Borrowings	(1,025,354)	-
Net cash and cash equivalents at end of period	539,564	2,463,326

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

Structural Monitoring Systems PLC

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

For the Half-Year Ended 31 December 2019

Consolidated (unaudited)	Issued Capital \$	Accumulated Losses \$	Share Premium Account \$	Share-Based Payment Reserve \$	Foreign Exchange Reserve \$	Total Equity \$
At 1 July 2018	31,926,515	(51,473,583)	34,919,253	512,996	(2,407,738)	13,477,443
Loss for the period	-	(1,889,700)	-	-	-	(1,889,700)
Other comprehensive income/(expense)	-	-	-	-	139,548	139,548
Total comprehensive loss for the period	-	(1,889,700)	-	-	139,548	(1,750,152)
Transaction with owners in their capacity as owners:						
Share-based payment - shares	2,250	529,500	-	-	-	531,750
Share-based payment – Performance Rights	-	-	-	546,785	-	546,785
At 31 December 2018	31,928,765	(52,833,783)	34,919,253	1,059,781	(2,268,190)	12,805,826
At 1 July 2019	31,932,333	(54,542,992)	35,105,783	1,586,491	(1,703,255)	12,378,360
Loss for the period	-	(1,752,845)	-	-	-	(1,752,845)
Other comprehensive income/(expense)	-	-	-	-	(1,639)	(1,639)
Total comprehensive loss for the period	-	(1,752,845)	-	-	(1,639)	(1,754,484)
Transaction with owners in their capacity as owners:						
Share-based payment - shares	4,445	255,841	526,343	-	-	786,629
Share-based payment – Performance Rights	-	-	-	1,299,569	-	1,299,569
Share issue costs	-	-	(5,847)	-	-	(5,847)
At 31 December 2019	31,936,778	(56,039,996)	35,626,279	2,886,060	(1,704,894)	12,704,227

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

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

1. GENERAL INFORMATION

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

The interim financial report of the Company as at and for the six months ended 31 December 2019 comprises the condensed consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group"). The Group's principal activity was the design and manufacture of electronic products and the provision of manufacturing services to the aviation industry.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union. With the exception of the adoption of *IFRS 16 Leases*, the accounting policies are consistent with those set out and applied in the statutory accounts of the Group for the period ended 30 June 2019, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union

This condensed consolidated interim financial report is intended to provide users with an update on the latest annual financial statement of Structural Monitoring Systems PLC and its controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this interim financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the following half-year.

The interim financial information for the period from 1 July 2019 to 31 December 2019 is unaudited. In the opinion of the Directors the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The financial information incorporates comparative figures for the unaudited interim period from 1 July 2018 to 31 December 2018 and audited as at 30 June 2019.

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

The comparative financial information for the year ended 30 June 2019 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts of Structural Monitoring Systems Plc for the year ended 30 June 2019 have been reported on by the Company's auditor, RSM UK Audit LLP, and have been delivered to the Registrar of Companies. The report of the auditor was unqualified. The auditor's report did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

The interim financial report was authorised for issue in accordance with resolution of the directors on 26 February 2020.

The interim financial report has been prepared on an accruals basis under the historical cost convention.

The accounting policies have been consistently applied with those of the year ended 30 June 2019 and corresponding interim reporting period, with the exception of the first-time adoption of IFRS 16 "Leases" (effective for accounting periods beginning on or after 1 July 2019).

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

2. BASIS OF PREPARATION (CONT'D)

The Group has adopted IFRS 16 *Leases* from 1 July 2019.

At inception, the Group assesses whether a contract contains a lease. This assessment involves the exercise of judgement about whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

Previously all the Group's leases were accounted for as operating leases in accordance with IAS 17 *Leases* (see note 4 of the annual report and consolidated financial statements for the year ended 30 June 2019).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has adopted the standard using the modified retrospective approach, with the right of use asset being equal to the lease liability at the point of original recognition. Therefore, the cumulative impact of the adoption is recognised in retained earnings as of July 2019 and the comparatives are not restated.

In applying IFRS 16 for the first time, the Group has not applied any expedients.

The impact of transition to IFRS 16 at 30 June 2019 is as follows:

Condensed Consolidated statement of financial position	\$
Non-current assets	
- right-of-use assets	618,474
Current liabilities	
- lease liabilities	<u>361,138</u>
Non-current liabilities	
- lease liabilities	<u>257,336</u>

Leases are shown as follows in the condensed consolidated statement of financial position and condensed consolidated income statement for the period ending 31 December 2019:

Condensed Consolidated statement of financial position	\$
Non-current assets	
- right-of-use assets	456,664
Current liabilities	
- lease liabilities	<u>408,423</u>
Non-current liabilities	
- lease liabilities	<u>61,569</u>
Condensed Consolidated statement of comprehensive income	
Depreciation	194,520
Finance costs	<u>18,208</u>

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

2. BASIS OF PREPARATION (CONT'D)

Significant accounting estimates

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the consolidated financial statements the significant estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2019.

Going Concern

The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the condensed consolidated financial statements, the Group incurred a loss after tax of \$1,752,845 and had net cash outflows from operating activities of \$1,325,041 for the half-year ended 31 December 2019.

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM and the realisation of assets and discharge of liabilities in the normal course of business as well as the availability of an established operating loan facility of up to CAD\$2 million. The directors consider the going concern basis of accounting to be appropriate based on forecast cash flows.

3. SUBSEQUENT EVENTS

Subsequent to the reporting date no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

4. OPERATING SEGMENTS

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

The Group operates predominantly in two industries, being structural health monitoring. (CVM™) and the design and manufacture of avionics and audio systems. A third segment refers to the intellectual property (IP) held in another subsidiary of the Parent. In the prior period the Group reported as having operated in one segment, being structural health monitoring.

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENTS

The accounting policies of the reportable segments are the same as the Group's accounting policies.

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

	CVM™ IP	Avionics/ audio	CVM™	Total
	\$	\$	\$	\$
Half-year ended 31 December 2019				
Revenue				
Revenue from contracts with customers	-	8,561,085	-	8,561,085
Revenue from the rendering of services	-	190,436	11,632	202,068
Segment revenue	-	8,751,521	11,632	8,763,153
Sales revenue by customer location:				
North America	-	7,274,319	11,632	7,285,951
Europe	-	1,020,019	-	1,020,019
Middle East	-	417,099	-	417,099
Other	-	40,084	-	40,084
Total revenue	-	8,751,521	11,632	8,763,153
Results				
Other revenue	-	825	11,066	11,892
Profit/(loss) before tax	(230,474)	1,038,154	(2,528,609)	(1,720,929)
Income tax expense	-	(28,979)	(2,937)	(31,916)
Profit/(loss) for the period	(230,474)	1,009,175	(2,531,546)	(1,752,845)
Assets and liabilities				
Segment assets	638,945	14,573,178	1,257,364	16,469,487
Segment liabilities	456,115	3,010,778	298,367	3,765,260
Included within segment results:				
Depreciation and amortisation	-	(503,769)	(37,977)	(541,746)
Financial income	1,968	-	-	1,968
Financial expense	(22,508)	(28,218)	(7,650)	(58,376)
Financial gains/(losses)	(3,999)	33,730	-	29,731

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENTS (CONT'D)

	Australia	US/Canada	UK	Total
	\$	\$	\$	\$
Half-year ended				
31 December 2018				
Revenue				
Revenue from contracts with customers	95,119	6,661,612	-	6,756,731
Revenue from the rendering of services	-	356,784	-	356,784
Segment revenue	95,119	7,018,396	-	7,113,515
Sales revenue by customer location:				
North America	95,119	6,887,668	-	6,982,787
Rest of world	-	130,728	-	130,728
Total revenue	95,119	7,018,396	-	7,113,515
Results				
Profit/(loss) before tax	(625,227)	307,252	(1,538,957)	(1,856,932)
Income tax expense	-	(32,768)	-	(32,768)
Profit/(Loss) for the period	(625,227)	274,484	(1,538,957)	(1,889,700)
Assets and liabilities				
Segment assets	2,242,412	12,468,901	139,369	14,850,682
Segment liabilities	444,472	1,495,525	104,859	2,044,856
Included within segment results:				
Depreciation and amortisation	(95)	(314,570)	-	(314,665)
Financial income	3,822	-	-	3,822
Financial expense	-	-	-	-

Segment revenues represent revenue generated from external customers. There were inter-segment revenues of \$234,883 (2018: \$124,612) in the current period.

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group derives its revenue from product sales and repair services, both recognised at a point in time in the following major geographical segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 (see note 4).

	6 months to 31 December 2019	6 months to 31 December 2018
Revenue from contracts with customers by customer location:	\$	\$
North America	7,285,951	6,618,998
Europe	1,020,019	428,318
Middle East	417,099	32,034
Rest of world	40,084	34,165
Total revenue	8,763,153	7,113,515

There were no impairment losses on receivables in the statement of profit or loss for the six months ended 31 December 2019.

	North America	Europe	Middle East	Rest of world
Revenue from contracts with customers by customer location:	\$			
Segment revenue	7,520,834	1,020,019	417,099	40,084
Eliminations	(234,883)	-	-	-
Total revenue from contracts with customers	7,285,951	1,020,019	417,099	40,084

There were no impairment losses on receivables in the statement of profit or loss for the six months ended 31 December 2018.

	North America	Europe	Middle East	Rest of world
Revenue from contracts with customers by customer location:	\$			\$
Segment revenue	6,743,610	428,318	32,034	34,165
Eliminations	(124,612)	-	-	-
Total revenue from contracts with customers	6,618,998	428,318	32,034	34,165

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

6. SHARE-BASED PAYMENT EXPENSE

	6 months to 31 December 2019 \$	6 months to 31 December 2018 \$
Performance Rights to Directors and Executive	739,933	496,352
Performance Rights to Consultants	116,347	50,433
Shares to Directors and Executive	129,493	57,000
Shares to Employees	75,756	360,750
Shares to Consultants	50,592	114,000
	<u>1,112,121</u>	<u>1,078,535</u>

Performance Rights

Directors and Executive

On 12 December 2019 shareholders approved the issue of 150,000 Performance Rights (PRs) as remuneration to Will Rouse and the issue of 267,000 PRs as remuneration to Stephen Forman, both Directors of the Company, under the Company Employee Incentive Plan (EIP).

All Director PRs are subject to continued services with the Company and tranches 4,5 and 6 vest based on the attainment of share price barriers within 2 years of the issue date.

The following Director PRs were granted as remuneration during the period:

Director	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10
W Rouse	50,000	50,000	50,000	-	-	-	-	-	-	-
S Forman	-	-	-	50,000	50,000	50,000	60,000	14,328	21,490	21,490
Fair value at grant date (\$)	1.009	1.009	1.009	0.695	0.529	0.410	1.009	1.009	1.009	1.009
Expense recognised in current period (\$)	50,450	6,468	2,727	949	723	560	60,540	14,457	21,683	21,683

The inputs to the valuation of Director PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier (\$)	n/a	n/a	n/a	2.00	2.75	3.50	n/a	n/a	n/a	n/a
Grant date	12/12/19	12/12/19	12/12/19	12/12/19	12/12/19	12/12/19	12/12/19	12/12/19	12/12/19	12/12/19
Performance period (years)	0.01	0.42	1.01	2	2	2	n/a	0.05	0.30	0.55
Volatility (%)	60	60	60	60	60	60	60	60	60	60
Risk free rate (%)	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Dividend yield	-	-	-	-	-	-	-	-	-	-

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

6. SHARE-BASED PAYMENT EXPENSE (CONT'D)

The expense recognised during the current period on PRs granted in prior periods to Directors was \$274,161 (2018: \$256,594).

On 18 November 2019 the Board approved the issue of 75,000 PRs to Toby Chandler, CEO. The PRs vested immediately, and the expense recognised in the current period was \$69,375.

The expense recognised during the current period on PRs granted in prior periods to the CEO was \$225,723 (2018: \$225,723).

Consultants

On 18 November 2019 The Board granted the issue of the following PRs to consultants of the Company. The PRs are subject to continued service with the Company. The PRs vested immediately, and the expense recognised in the current period was \$69,375.

The expense recognised during the current period on PRs granted in prior periods to consultants was \$35,555 (2018: \$50,433).

In lieu of fees

During the period the Directors and two consultants elected to receive performance rights (PRs) in lieu of fees accrued for the period 1 July to 31 December 2019. The fair value of those PRs was determined by the share price at the grant date. The difference between the fair value and the amount required to settle the obligations to those directors and consultants at the grant date was recorded in share-based payments. The expense recorded during the period was \$59,674 (2018: nil).

Shares - Employee Incentive Plan

On 8 August 2019 the Board approved the issue of shares to an executive, consultants and employees of the Company under the Employee Incentive Plan (EIP).

- Directors and Executives

During the period a total of 500,000 shares were issued to an executive of the Company. 200,000 were issued at a price of 60 cents and 300,000 were issued at a price of 59 cents.

The expense recognised in the current period was \$129,493. The total fair value was determined by the share price on the grant date.

- Employees

During the period a total of 213,422 shares were issued to employees of the Company. 41,347 were issued at a price of 60 cents and 172,075 were issued at a price of 59 cents.

The expense recognised in the current period was \$75,756. The total fair value was determined by the share price on the grant date.

- Consultants

During the period a total of 175,424 shares were issued to consultants of the Company. 50,000 were issued at a price of 60 cents and 125,424 were issued at a price of 59 cents.

The expense recognised in the current period was \$50,592. The total fair value was determined by the share price on the grant date.

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

7. LOSS PER SHARE

Basic loss per share

The basic and diluted loss per share for the half-year ended 31 December 2019 is 1.51 cents per share (2018: 1.65 cents per share).

Earnings

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share has not been calculated as the Group is loss making.

	6 months to 31 December 2019	6 months to 31 December 2018
	\$	\$
Net loss attributable to equity holders from continuing operations	(1,752,845)	(1,889,700)
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for basic loss per share	115,799,098	114,736,145
Weighted average number of ordinary shares for diluted loss per share	115,799,098	114,736,145

8 INVENTORY

	As at 31 December 2019	As at 30 June 2019
	\$	\$
Raw materials	4,913,516	3,496,388
Work in progress	987,904	1,334,914
Finished goods	1,652,099	1,442,864
Provision for obsolescence	(147,638)	(114,292)
	<u>7,405,881</u>	<u>6,159,874</u>

9. OTHER CURRENT ASSETS

	As at 31 December 2019	As at 30 June 2019
	\$	\$
Prepayments	293,367	222,533
Bank guarantee	66,166	66,166
Other receivables	100	-
GST receivable	51,451	64,617
Deposits	12,961	7,757
	<u>424,045</u>	<u>361,073</u>

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

10. INTANGIBLE ASSETS AND GOODWILL

	As at 31 December 2019 \$	As at 30 June 2019 \$
<i>Intangible assets</i>		
Various intangibles – acquired through business combinations*	2,691,926	2,691,926
Accumulated amortisation of intangibles	(804,506)	(594,282)
Foreign currency differences	124,829	112,000
	<u>2,012,249</u>	<u>2,209,644</u>
<i>Goodwill</i>		
Goodwill – acquired through business combinations	1,402,945	1,402,945
Foreign currency differences	78,940	72,004
	<u>1,481,885</u>	<u>1,474,949</u>
	<u>3,494,134</u>	<u>3,684,593</u>

*Comprising certifications, a licence agreement and technology acquired in December 2017.

11. TRADE AND OTHER PAYABLES

	As at 31 December 2019 \$	As at 30 June 2019 \$
Trade payables	690,929	950,400
Other payables	974,233	1,632,877
	<u>1,665,162</u>	<u>2,583,277</u>

12. ISSUED CAPITAL

	As at 31 December 2019 \$	As at 30 June 2019 \$
Ordinary Shares		
Issued and fully paid	<u>31,936,778</u>	<u>31,932,333</u>
<i>Movement in ordinary shares in issue</i>		
At 30 June 2019	115,562,285	31,932,333
Issued to staff under EIP	888,846	4,445
At 31 December 2019	<u>116,451,131</u>	<u>31,936,778</u>

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

12. ISSUED CAPITAL (CONTINUED)

	As at 31 December 2019	As at 30 June 2019
Share Premium Account	\$	\$
Share Premium Account	35,626,279	35,105,783
	<hr/>	<hr/>
	<i>Shares on Issue</i>	
	(no.)	\$
	<hr/>	<hr/>
<i>Movement in ordinary shares in issue</i>		
At 30 June 2019	115,562,285	35,105,783
Issued to staff under EIP	888,846	526,343
Issue-costs		(5,847)
At 31 December 2019	116,451,131	35,626,279

Share premium account

The share premium account is used to record increments in the value of share issues when the issue price per share is greater than the par value. The par value of shares is GBP0.005 (2018: GBP0.005). Costs of the issues are written off against the account.

13. RESERVES

	As at 31 December 2019	As at 30 June 2019
Reserves	\$	\$
Share-based payment reserve	2,886,060	1,586,491
Foreign currency translation reserve	(1,704,894)	(1,703,255)
	1,181,166	(116,764)
	<hr/>	<hr/>
	<i>Performance rights</i>	
	<i>on issue (PRs)</i>	
	No.	\$
	<hr/>	<hr/>
Share-based payment reserve		
Outstanding at 30 June 2019	3,075,000	1,586,491
	<hr/>	<hr/>
Grant of PRs – for PRs issued in prior years		535,439
Grant of PRs – in lieu of fees owing	288,326	268,516
Grant of PRs – under EIP to executive and consultants	150,000	138,750
Grant of PRs – for PRs issued in current period	874,859	356,864
Outstanding at 31 December 2019	4,388,185	2,886,060

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

13. RESERVES (CONT'D)

For further details of PRs granted during the period, refer to Note 6: Share-based payments expense.

Nature and purpose of reserves

Share-based payment reserve

The share-based payment reserve is used to record the value of share-based payments which represent unissued shares (i.e. grants of options/performance rights/performance shares) and grants of shares that have not yet been issued.

Foreign currency translation reserve

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

14. FINANCIAL RISK MANAGEMENT

a) Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents and non-interest-bearing financial assets and financial liabilities of the Group is equal to their carrying value.

b) Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2019	Carrying amount	Contractual cash flows	6 months or less	1 year or less	Over 1 year
	\$	\$			
Trade and other payables	(1,632,886)	(1,632,886)	(1,632,886)	-	-
Borrowings	(1,025,354)	(1,025,354)	(1,025,354)	-	-
Lease liabilities	(469,992)	(469,992)	(190,165)	(199,445)	(80,382)
	(3,128,232)	(3,128,232)	(2,848,405)	(199,445)	(80,382)
30 June 2019	Carrying amount	Contractual cash flows	6 months or less	1 year or less	Over 1 year
	\$	\$			
Trade and other payables	(2,556,087)	(2,556,087)	(2,556,087)	-	-
Borrowings	(729,359)	(729,359)	(729,359)	-	-
	(3,285,446)	(3,285,446)	(3,285,446)	-	-

Structural Monitoring Systems PLC

Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2019

14. FINANCIAL RISK MANAGEMENT

c) Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian Dollar (AUD), but also the USD, the CAD, the EUR and the GBP. The currencies in which these transactions primarily are denominated are AUD, CAD and USD.

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

15. COMMITMENTS AND CONTINGENCIES

During the period a claim for royalties was received by Structural Monitoring Systems Limited ("the Company"). That claim is being defended and will proceed to an arbitration hearing, most likely in late 2020 or early 2021. As a matter of prudence, the Company has made provision for costs and interest in the sum of \$412,065 (an increase in interest of \$22,507 during the period) inc. GST for the claim for royalties to 2015 as a current liability under other payables in the statement of financial position as at 31 December 2019. The additional amount of royalties being claimed post 2015 is now \$464,848 including interest. The post 2015 claim has not been accrued based on the current status of the case where evidence is still not complete and therefore the directors are satisfied the payment of the post 2015 royalty claim is not probable at this stage of the proceedings.

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

Structural Monitoring Systems PLC

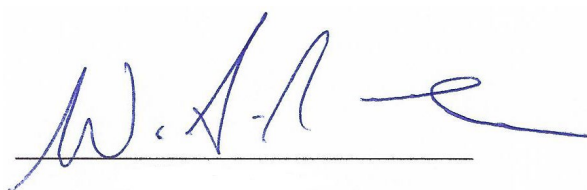
Directors' Declaration

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

- (a) the attached condensed consolidated financial statements and notes of the Group:
 - (i) give a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date; and
 - (ii) comply with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Will Rouse

Executive Chairman

Perth, Western Australia

26 February 2020

INDEPENDENT REVIEW REPORT TO STRUCTURAL MONITORING SYSTEMS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2019 which comprises the condensed consolidated statement of comprehensive income for the half year ended on that date, the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity for the half year ended on that date and the related explanatory notes that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union and the rules of the Australian Stock Exchange.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

RSM UK Audit LLP

Chartered Accountants

25 Farringdon Street, London, EC4A 4AB

26 February 2020

RSM UK Audit LLP