



SMS - September Quarter 2020 Further Company Update

Highlights:

- **AEM continues to post positive, sequential growth in top-line revenues which totalled A\$4.285m for the September quarter and generated a normalised EBITDA of A\$790k.**
- **SMS Group cash reserves remain strong and stable – closing cash on-hand at A\$2.154 million**
- **SMS retains efficient track to first STC approval - expected to be fully documented next quarter. Entire SMS/AEM team and industry partners maintain absolute diligence to advance commercial progress of CVM™**

Structural Monitoring Systems Plc (“**SMS**” or “**the Company**”) (**ASX: SMN**) is pleased to provide the following Quarterly Update.

SMS Group – Summary of Financial Overview and Operational Highlights

Wholly-owned SMS subsidiary, Anodyne Electronics Manufacturing Corp (“**AEM**”), ended the Quarter with top line revenue (unaudited management accounts) of A\$4.285m, and despite global conditions, actually ahead of the Sep-19 quarter. The quarter closed with solid momentum, and revenues for the month of September were ahead of budget at A\$1.924m, noting in particular that new business booked for Q4-2020 already stands at A\$1.410m.

September quarter normalised EBITDA closed at A\$790k which was ahead of budget - due to the impressive top-line result, but also due to tighter expense control and a higher margin product mix.

Cash generation through the final quarter remained stable, with SMS’s closing cash on-hand balance registering A\$2.154 million. Additionally, the AEM subsidiary has access to recently expanded loan facilities of A\$3.00m-plus to fund potential operational needs, if required. In sum, the SMS Group continues to fund all optimised operational platforms, is generating free cashflow, and has available, and access to, significant non-equity funding that will maintain all operational foreseeable liquidity requirements, and critically, preserve the present status of the Group’s capital structure.

Looking forward, AEM’s results are expected to track on-budget for fiscal year Q2, a pleasing trend particularly given the extraordinarily difficult global aviation environment. Importantly, previously highlighted AEM-developed new products, currently in late-stage development and fully expected to launch in 2021, should add further momentum to overall performance - in terms of increased top-line revenue, broadened strategic global product mix and expanded profitability.



AEM is now in the final stages of a long-planned move to a new purpose-built facility in Kelowna, Canada, expected to take place in H2-2021. The new facility will have a larger footprint and a significantly more efficient manufacturing layout leading to measurable productivity gains and the ability to strategically and numerically expand AEM/SMS staff and equipment to fully satisfy global demand for the Company's products in future years.

Further Summary - CVM™ Commercialisation Update and Outlook:

The formal, documented Supplemental Type Certificate ("STC") approval for CVM™ deployment on 2ku Wi-Fi systems is expected to be achieved in Q1-2021. The Federal Aviation Administration ("FAA") and Delta Engineering ("DE") continue to work on the completion of the Issue Paper (IP) and Test Plan requirements for the approval of the STC, and SMS have been advised that the Issue Paper is "more or less complete" in final documented form, with all technical aspects having been agreed upon. DE is now awaiting final edits and formal industry release from the FAA.

Concurrently, the required pre-validation CVM™ installation on a Delta Air Lines ("Delta") aircraft has progressed internally at Delta to the point where we have (somewhat belatedly – given the severe challenges faced by the entire aviation sector) secured A) an MRO location, B) a specific aircraft (designated by an actual tail number), and C) with an installation date soon to follow.

The Company expects only a slight delay in the formal obtainment of the final FAA approval of the Test Plan – as the FAA requested that an evaluation of the data variance between DE and Sandia Labs be conducted. Previously the two labs were to be running unique experiments, whereas now each lab will run a portion of each of the experiments and the variance evaluated between labs. This was not entirely unexpected, given that SMS's long-term strategic relationship with Sandia, and Dr Dennis Roach's team in particular, has been directly with the FAA Airworthiness and Assurance Center at Sandia, and it therefore was not unreasonable that the FAA would prefer to have formal input from this area. This requirement will see full subsequent collation and submission of all required data for the STC application being carried out for the remainder of this year, and into Q1-21. Naturally, the Company has already notified and mobilised all resources necessary to complete this pre-requisite work as expeditiously as possible once the final FAA Test Plan approval is received.

It should again be noted that the FAA has been very supportive of the STC effort. The FAA's Transport Directorate, New York Aircraft Certification Office ("ACO") and their engineering team have been fully engaged and working efficiently with DE to finalise the release of the Test Plan. As communicated previously, despite the (unprecedented) challenges facing the global operating environment, SMS - and the Company's key strategic counterparties - remain on-track, and fully committed, to deliver a highly significant STC approval milestone.

As always, the Company's shareholders will be kept abreast of progress along the approval path.



Appendix 4C Details:

SMS's cash balance as at 30 September 2020 was A\$2.154 million. The SMS Group is adequately funded to continue its current activities during these uncertain times and will continue to demonstrate appropriate financial restraint.

As announced 24 March 2020, the Company's Board and CEO carefully reviewed the SMS Group's cashflow outlook for the remainder of the calendar year, in light of the timeframe remaining in 2020 to CVM™ commercialisation, and with due regard to the constantly evolving COVID-19 situation. As a matter of prudence, all SMS Board and Executive/senior staff moved to an equity-only compensation structure, and agreed to material compensation cuts that will remain in place for the remainder of the calendar year, to ensure that the cashburn at the corporate level is limited to essential outgoings only (ie regulatory related expenses, ASX and audit fees, patent maintenance, and so forth). With the proviso that there will be only limited disruption to AEM's ongoing business operations, as expected, the Group will be able to self-fund all core operational activities throughout the calendar year, and well into 2021.

During the quarter:

- payments for Research and Development of A\$139k represented costs involved with the development of the Company's CVM™ technology and salary allocations of staff at AEM who are 100% focused on R&D activities.
- payments for Product Manufacturing and Operating Costs represent wholly-owned subsidiary AEM's expenditure allocated to manufacturing and operating.
- payments for Staff Costs represent salaries for manufacturing, administration, sales and general management activities.
- payments for Administration and Corporate Costs represent general costs associated with running the Company, including ASX fees, legal fees, audit, etc.

The aggregate amount of payments to related parties and their associates included in the September quarter cash flows from operating activities was \$nil.

As stated above, the Group cash balance as at 30 September 2020 amounted to A\$2.154 million. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

This announcement is authorised by the Board.

ASX ANNOUNCEMENT

ASX: SMN

30 October 2020

**STRUCTURAL
MONITORING
SYSTEMS**
plc



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 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 cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Structural Monitoring Systems Plc

ARBN

106 307 322

Quarter ended ("current quarter")

30 September 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,767	3,767
1.2 Payments for		
(a) research and development	(139)	(139)
(b) product manufacturing and operating costs	(2,133)	(2,133)
(c) advertising and marketing	(82)	(82)
(d) leased assets	-	-
(e) staff costs	(929)	(929)
(f) administration and corporate costs	(334)	(334)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(4)	(4)
1.6 Income taxes paid	(212)	(212)
1.7 Government grants and tax incentives	-	-
1.8 Other	-	-
1.9 Net cash used in operating activities	(66)	(66)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(78)	(78)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3.months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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)	-	-
2.6	Net cash used in investing activities	(78)	(78)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	319	319
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
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 (repayment of ROU lease)	(54)	(54)
3.10	Net cash from financing activities	265	265

4.	Net increase in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,065	2,065
4.2	Net cash used in operating activities (item 1.9 above)	(66)	(66)
4.3	Net cash used in investing activities (item 2.6 above)	(78)	(78)
4.4	Net cash from financing activities (item 3.10 above)	265	265

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3.months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(32)	(32)
4.6	Cash and cash equivalents at end of period	2,154	2,154

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,167	2,545
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	(441)
5.4	Other (credit card)	(13)	(39)
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,154	2,065

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	3,147	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	3,147	-
7.5	Unused financing facilities available at quarter end		3,147
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	HSBC operating loan facility of CAD\$3million, secured at 3.45%		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from operating activities (item 1.9)	(66)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,154
8.3	Unused finance facilities available at quarter end (item 7.5)	3,147
8.4	Total available funding (item 8.2 + item 8.3)	5,301
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	80
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	<div style="border: 1px solid black; padding: 5px; min-height: 30px;"> Answer: n/a </div>	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	<div style="border: 1px solid black; padding: 5px; min-height: 30px;"> Answer: n/a </div>	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	<div style="border: 1px solid black; padding: 5px; min-height: 30px;"> Answer: n/a </div>	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>		

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.

30 September 2020

Date:

By the board

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.