



Appendix 4C and Quarterly Update

Highlights:

- **AEM's platform performance continues to impress with top line revenues totaling A\$6.7m for the half year to 31 December 2021, and generated a normalised EBITDA for the same period of A\$1.4m***
- **AEM forward orders for the March quarter already visibly strong at \$A2.7m**
- **AEM's transition to new premises predominantly complete**
- **SMS remains on track to first STC approval- with all revised documentation having been filed with FAA**
- **Organisational Changes – addition of Dr Dennis Roach**

*as per unaudited management accounts

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 half year with gross revenue (unaudited) of A\$6.7m, with normalised EBITDA for the same period of A\$1.4m.

These results reflected overall favorable expense control and an improvement in operating margins.

AEM also recorded income during the quarter of A\$750K from the Scientific Research and Experimental Development Tax Incentive Program available in Canada.

The order pipeline for the current quarter (Q3FY2022) is stronger than the first two quarters, driven primarily by the AEM audio line. Current orders on the books for shipping in Q3 sits at A\$2.7m. Customer enquiries have noticeably increased and sales staff have recommenced travel which has been largely non-existent for the last 18 months.

Transition to the new premises is mostly complete, from an operations perspective, approximately 85% of processes are online. Some disruption to production occurred during December and January but



deliverables have been met. We anticipate productivity gains as we continue back up to normal operating levels by the end of January 2022.

The Eagle Audio acquisition, announced in September 2021, is now fully integrated (inventory, production, processes) and order deliveries have commenced in January 2022. Demand levels are higher than anticipated and customer feedback has been enthusiastic.

The new generation AEM radio is now complete and has shipped to the sponsoring launch customer. Ongoing developments will see variants of this product shipped to other customers during calendar 2022. These radios will replace old and obsolete competitor products. All of the IP is owned by AEM.

Wi-Fi Radome STC Update and Outlook:

As we highlighted in our recent AGM, we are in the final workflow stages for the US Federal Aviation Authority (FAA) to grant Supplemental Type Certification (STC) approval for CVM™ Sensor technology on the B737-800 Intelsat (GoGo) Wi-Fi antenna inspection. SMS and Delta Engineering (DE) have submitted to the FAA a Similarity Assessment document linking the Environmental, Durability and Reliability testing to the current design. We are hopeful that a timely response from the FAA will see this submittal as the last step in an extensive process providing approval as previously stated by early to mid-February.

Post STC approval this will mark a significant milestone for the SMS group being the first-ever Structural Health Monitoring sensor validated and certified for detecting cracks on commercial aircraft.

As we have highlighted previously, post approval SMS personnel will reach out to all the major airlines whom previously indicated a high level of interest in CVM™ technology, to inform them of the STC approval and validation by the FAA of CVM™. We will highlight to all airlines that the STC establishes a basis for certifying additional new inspection applications, beyond the Wi-Fi antenna structure.

737 APB Update and Outlook:

Boeing has engaged with SMS and has offered support, consultation, and certification process in qualifying the APB application in 2022. Internally at Boeing, the SHM program received funding allowing Engineering to participate in a meeting early this year with SMS, and plans to continue interaction with SMS throughout the program. Boeing has provided the desired initial environmental and performance specifications to SMS and has continued to work with SMS on draft revisions. With these preliminary specifications, SMS is currently revising the associated specification document, qualification plans and procedures for submittal back to Boeing for review.



Organisation Updates:

During the Quarter, the Directors have listened to and taken on board the concerns of our shareholders and to that end have made changes to the board of directors with further appointments of an aerospace executive CEO to come.

As we also highlighted at the AGM, we are very pleased and excited to announce Dr Dennis Roach has joined the SMS executive team in a consulting capacity. Dr Roach spent 35 years at Sandia National Laboratories where he was Senior Technical Fellow and the Chief Engineer in the FAA's Airworthiness Assurance Center which Sandia Labs operated for the Federal Aviation Administration. Dr Roach is recognised as a global structure health expert, his addition to our team adds expertise to the company that will be critical to the further development of CVM™ solutions.

We also expect to make further announcements in the near future regarding the appointment of an industry specific director and executives to coincide with the anticipated issue of the inaugural STC for the GoGo Wi-Fi.

Capital Raise:

The current CDI Entitlement Issue and Option offer while strengthening the Group's balance sheet will also provide the necessary capital to assist in commercialising CVM™ post the expected near term GoGo WiFi STC approval. The primary purpose of the Option Offer is to reward eligible holders with an opportunity to acquire Options at an attractive price. The Option offer is renounceable and therefore Eligible holders can sell or transfer any of their entitlement on the ASX.

All directors are committed to taking up their full CDI and option entitlements.

Executive Chairman, Will Rouse commented, "We are pleased to provide this offer to our shareholders as recognition of their invaluable support to the company. We are making solid progress in our STC application and look forward to achieving further milestones and for shareholders to benefit from their patience".

Appendix 4C Details:

SMS's cash balance as at 31 December 2021 was A\$165K. Subsequent to the end of the quarter AEM received A\$650K in cash in respect of part payment of the Scientific Research & Experimental Tax Incentive Program for 2021. As highlighted above the Company is currently in the process of conducting a Capital Raise, the completion of which, anticipated in February 2022, will provide funding to retire debt, commercialise CVM™ technology and provide general working capital.



During the quarter SMS group operating cashflow included:

- payments of A\$86K for Research and Development represent 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 of A\$2.167m for Product Manufacturing and Operating Costs represent wholly-owned subsidiary AEM's expenditure allocated to manufacturing and operating.
- payments of A\$866K for Staff Costs represent salaries for manufacturing, administration, sales and general management activities.
- payments of A\$298K for Administration and Corporate Costs represent general costs associated with running the Company, including ASX fees, legal fees, audit, etc.
-
- payments of A\$527K in respect of backdated royalty fees

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

As stated above, the Group cash balance as at 31 December 2021 amounted to A\$165K. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

This announcement is authorised by the Board.

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).

ASX ANNOUNCEMENT

ASX: SMN

31st January 2022

**STRUCTURAL
MONITORING
SYSTEMS**
plc



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.

For further information, please contact:

Sam Wright

Company Secretary

E: s.wright@smsystems.com.au

Steve Forman

Head of Investor Relations

E: s.forman@smsystems.com.au

www.smsystems.com.au

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")

31 December 2021

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6.months) \$A'000 |
|--|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 3,392 | 6,768 |
| 1.2 Payments for | | |
| (a) research and development | (86) | (144) |
| (b) product manufacturing and operating costs | (2,167) | (4,653) |
| (c) advertising and marketing | (86) | (116) |
| (d) leased assets | - | - |
| (e) staff costs | (866) | (2,184) |
| (f) administration and corporate costs | (298) | (616) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | - | - |
| 1.5 Interest and other costs of finance paid | (63) | (82) |
| 1.6 Income taxes paid | (51) | (102) |
| 1.7 Government grants and tax incentives | 134 | 417 |
| 1.8 Other (Backdated royalty fees) | (527) | (527) |
| 1.9 Net cash from operating activities | (618) | (1,239) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire or for: | | |
| (a) entities | - | - |
| (b) businesses ⁽¹⁾ | 14 | (4,584) |
| (c) property, plant and equipment | (1,724) | (1,775) |
| (d) investments | - | - |
| (e) intellectual property ⁽²⁾ | (229) | (521) |
| (f) other non-current assets | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6.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 (release of bank guarantee) | - | 66 |
| 2.6 | Net cash used in investing activities | (1,939) | (6,814) |

(1) Acquisition of Eagle Audio, Canada, as announced 2 September 2021.

(2) Capitalised R&D expenditure

| | | | |
|-------------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | - |
| 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 | - | (4) |
| 3.5 | Proceeds from borrowings ⁽³⁾ | 1,207 | 6,050 |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (repayments of ROU leases) | (122) | (243) |
| 3.10 | Net cash from financing activities | 1,085 | 5,803 |

(3) In addition to borrowings above the Group has obtained a loan from a related party of US\$800,000 at an interest rate of 6% which has been placed on deposit with HSBC Canada as security for its C\$5million loan facility disclosed in Note 7. The loan will be repaid from the proceeds of a capital raising announced in January 2022.

| | | | |
|-----------|---|-------|---------|
| 4. | Net increase in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 1,632 | 2,381 |
| 4.2 | Net cash used in operating activities (item 1.9 above) | (618) | (1,239) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6.months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 4.3 | Net cash used in investing activities (item 2.6 above) | (1,939) | (6,814) |
| 4.4 | Net cash from financing activities (item 3.10 above) | 1,085 | 5,803 |
| 4.5 | Effect of movement in exchange rates on cash held | 5 | 34 |
| 4.6 | Cash and cash equivalents at end of period | 165 | 165 |

| 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 | 282 | 1,632 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | (127) | - |
| 5.4 | Other (credit card) | 10 | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 165 | 1,632 |

| 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.</i> <i>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 | 5,408 | 4,631 |
| 7.3i | Other (related party loan) | 1,103 | 1,103 |
| 7.3ii | Other (equipment lease) | 3,022 | 1,376 |
| 7.4 | Total financing facilities | 9,533 | 7,110 |
| 7.5 | Unused financing facilities available at quarter end | | 2,423 |
| 7.6 | <p>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.</p> <p>HSBC operating loan facility of C\$5million, (increased from C\$3million during the year to date) secured at 3.45%, no maturity date</p> <p>HSBC equipment lease facility of US\$2.2million (increased from US\$1.5million during the quarter, secured at 3.45%, with a term of between 3-5 years according to the type of equipment financed.</p> <p>A loan of US\$800,000 was received during the year to date from a related party and placed on deposit with HSBC as collateral for an operating loan facility. The loan is for a term of up to 1 year at an interest rate of 6% per annum. The loan will be repaid from the proceeds of a capital raising announced in January 2022.</p> | | |

| | | |
|--|---|----------------|
| 8. | Estimated cash available for future operating activities | \$A'000 |
| 8.1 | Net cash from operating activities (item 1.9) | (618) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 165 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | 2,423 |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 2,588 |
| 8.5 | Estimated quarters of funding available (item 8.4 divided by item 8.1) | 4.19 |
| <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 | <p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>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?</p> <p>Answer: n/a</p> <p>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?</p> <p>Answer: n/a</p> | |

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?

Answer: n/a

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.

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.

Date: 31 January 2022

Authorised by: By the Board
(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.