

ASX ANNOUNCEMENT

ASX: SMN

27 July 2021

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SMS - June Quarter 2021 Company Update

Highlights:

- **AEM normalised full-year EBITDA at \$A2.75 million, vs Budget of \$A2.67 million**
- **SMS Group ends the year with closing cash on-hand at \$A2.38 million**
- **2Ku WiFi & APB programmes close to key inflection points, full commercialisation**
- **CVM™ post-approval marketing and global outreach ready to rapidly ramp-up**

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

AEM Platform Performance

Wholly-owned SMS subsidiary, Anodyne Electronics Manufacturing Corp (“**AEM**”), recorded \$A15.62 million in revenue and normalised EBITDA for the full year to June 2021 (excluding inter-company sales) of \$A2.75 million v budget of \$A2.67 million (unaudited). This was a particularly impressive result given the significant impact of the Covid pandemic that affected both sales and production at the platform level, while concurrent supply chain difficulties encountered at multiple times during the year compounded the overall business impact.

This full year, ahead-of-budget, result is a tribute to the excellent team the Company has assembled in Kelowna, operating in extremely challenging conditions. Through tight expense control, and the higher margins achieved from stronger sales of AEM-developed IP products, the Group was able to offset the effects of softer sales in contract-manufactured products.

Looking ahead to the next financial year, SMS will continue to increase investment in R&D and sales team expansion which will result in a continuation of the transition to sales of higher margin, AEM-developed products. The move to a new, vastly improved purpose-built facility in Q4 - with the associated investment in the latest manufacturing equipment - is expected to yield significant productivity improvements. Further, the new facility will provide the capacity to manufacture *both* the expected increased production volumes stemming directly from these R&D and sales investments, *and* also cater to the expected commercialisation and production ramp-up of SMS’s CVM™ technology suite of products. Major equipment, inventory and staff transfer to the new facility will begin in October, and the facility is expected to be at, or close to, fully operational in late-Nov/early-Dec.

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In other core business activities related to AEM, the Group continues to identify and evaluate potential external transactions that would result in material “bolt-on”, “plug and play” acquisitions – with the key proviso that such a transaction, if executed, would exhibit highly favourable financial outcomes across all key metrics, and simultaneously lever the existing, rapidly expanding, AEM platform. In this regard, the Company is anticipating a further key update to address these activities in the very near future.

2Ku Wi-Fi & APB Programmes :

The FAA has responded with questions to clarify some of the interpretive items in the data package for the Intelsat (GoGo) B737-800 2ku WiFi program, and has established weekly conference calls with Delta Engineering (“DE”) and SMS to expedite this process.

SMS has now received routine addressable questions and comments from the FAA, via DE, in regard to the STC application, AMOC application and probability-of-detection (“POD”) test report. The majority of the comments were directed towards an NDT Manual that details how to perform the CVM™ inspection. A revision of this Manual that clarifies the points in question has now been released by SMS. At the current juncture, SMS is not aware of any additional required information necessary for the FAA to formally issue the AMOC and STC. The Company is highly optimistic that this will be achieved in the near term.

Further, The Boeing Company (“**Boeing**”) continues to develop and proceed along the CVM™ certification process path for the B737 aft-pressure bulkhead (“**APB**”) application affecting a very large number of the world’s B737-NG fleet. Formative meetings with Boeing specialists and certification authorities - along with FAA officials - are scheduled this month. A test plan for supplementary POD data capture is to be drafted following a similar process to the WiFi STC. Thus, progress to a final commercial outcome is now well advanced.

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CVM™: Post-FAA Approval Marketing and Outreach

The largest and most important marketing initiative to date has been to support the DE-led initiative to achieve the first FAA-approved application for CVM™. The formal approval to use CVM™ as an alternative means of inspection from the largest aerospace regulator in the world will provide the necessary “blue sky” for the rest of the industry to adopt CVM™ for use on their respective fleets.

Upon formal approval, Rich Poutier, SMS Head of Global Business Development, will be in a position to:

- drive sales of CVM™ kits for those airlines that utilize GoGo WiFi systems and
- work with all major carriers to identify further use cases for CVM™ - moreso given that the optimal path for regulatory approval process will be fully enacted and understood - by both SMS and the global civil aerospace industry.

More than 2,594 aircraft currently in service globally are fitted with the GoGo WiFi system, 1,600 of which are based in the USA. Rich Poutier, along with key members of the SMS Board and Management team, have met on multiple occasions with executives from a significant number of the global airlines that have the GoGo system installed, and continue to keep their respective management teams up to speed on the timelines expected for formal CVM™ approval.

In other activity, Delta Air Lines (“Delta”) continues to press Boeing and the FAA for additional use cases for CVM™ for the Delta fleet. The next sequential approval will very likely be for the APB structural inspection on Delta’s B737-NG fleet. To date, SMS and Delta have outfitted twenty (20) B737-NG individual aircraft with CVM™ kits and are now collecting data to support the current AMOC-approval process within Boeing. Further, Delta Tech Ops – Delta’s key technical and R&D arm – have now formally requested a quotation from SMS to outfit an additional seven (7) aircraft with APB CVM™ kits that will be included in Delta’s 2022 provisional budget.

In summary, as noted on multiple occasions, the upcoming FAA approval marks the pivotal commercial inflection point whereby SMS can directly identify the global total addressable market for the CVM™ sensor technology. The next phase of marketing will be to fully engage with the largest global airlines to drive sales in 2021/22, and beyond. The priority will be for applications under the purview of the FAA and/or Boeing. However, given the extensive and ground-breaking work that has been completed to date with the world’s major regulators and OEMs – including EASA and Airbus, amongst others - SMS will be pursuing all commercial routes to fully open up multiple global markets for CVM™.

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Appendix 4C Details and Clarification:

SMS's cash balance as at 30 June 2021 was \$A2.38 million. The SMS Group is well funded to continue and optimise the Company's broad operational activities for the foreseeable future.

During the quarter:

- payments for Research and Development represent payments to third party providers for development of the of the Company's CVM™ technology and new AEM products. Salary allocations of staff at AEM who are 100% focused on R&D activities are included in payments to staff.
- payments for Product Manufacturing and Operating Costs represent wholly-owned subsidiary AEM's expenditure allocated to manufacturing and cost of goods sold.
- payments for Staff Costs represent salaries for manufacturing, R&D, 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 June quarter cash flows from operating activities was circa-\$A30,000.00

As stated above, the Group cash balance as at 30 June 2021 was \$A2.38 million. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

This announcement is authorised by the Board.

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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.

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 June 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,811	16,122
1.2 Payments for		
(a) research and development	(168)	(594)
(b) product manufacturing and operating costs	(2,515)	(8,694)
(c) advertising and marketing	(40)	(515)
(d) leased assets	-	-
(e) staff costs	(1,228)	(4,309)
(f) administration and corporate costs	(309)	(1,639)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	(4)	(19)
1.6 Income taxes paid	(77)	(435)
1.7 Government grants and tax incentives	382	639
1.8 Other	-	-
1.9 Net cash from operating activities	(148)	557
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(68)	(287)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12.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	(68)	(287)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	502
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)	(10)
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 (repayments of ROU lease)	(125)	(462)
3.10	Net cash from financing activities	(129)	30
4.	Net increase in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,655	2,065
4.2	Net cash from operating activities (item 1.9 above)	(148)	557
4.3	Net cash from investing activities (item 2.6 above)	(68)	(287)
4.4	Net cash from financing activities (item 3.10 above)	(129)	30

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12.months) \$A'000
4.5	Effect of movement in exchange rates on cash held	71	16
4.6	Cash and cash equivalents at end of period	2,381	2,381

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	2,428	2,668
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (credit card)	(47)	(13)
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,381	2,655

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	30
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

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	3,220	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	3,220	-
7.5	Unused financing facilities available at quarter end		3,220
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 2.45%		

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8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from operating activities (item 1.9)	(148)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,381
8.3 Unused finance facilities available at quarter end (item 7.5)	3,220
8.4 Total available funding (item 8.2 + item 8.3)	5,601
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	38
<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?	
Answer: n/a	
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?	
Answer: n/a	
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	
<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.

27 July 2021

Date:

By the Board

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

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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.