



Quarterly Activity Report and Appendix 4C for the period ending 30 September 2021

Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX: SMN) is pleased to provide the following Quarterly Activity Update, summarising Group activities and prior releases lodged during the quarter ended 30 September 2021.

FAA Status for the Gogo™ Wi-Fi STC

In August 2021 the FAA requested that Delta Engineering (DE) submit their "Statement of Compliance" letter (a final statement declaring that CVM™ meets the minimum safety standard as set forth by the applicable airworthiness standards), this request was the outcome of many months of dialogue between SMS, DE and the FAA discussing the submitted engineering reports and laboratory results for CVM™ approval. As requested, DE submitted their "Statement of Compliance" letter shortly thereafter. Last week (several weeks after DE submitted the Statement of Compliance), the FAA asked DE to address a few minor edits/clarifications to the analysis method applied to the data and to re-submit the previously submitted Test Report incorporating these edits / clarifications. DE has now re-submitted the Test Report as requested and no other changes have been requested. For clarification purposes, this means DE has submitted to the FAA a "Statement of Compliance" letter which fully illustrates compliance to the requirements of the specific Wi-Fi application Issue Paper.

It is the opinion of SMS management that revisions to the documents previously presented to the FAA have not been of any technical significance to CVM™ and were limited to minor edits and analysis methodologies. As with any regulatory authority it is difficult to pin-point when they will issue the final STC approval, however, considering the FAA has requested the Statement of Compliance letter, SMS management is reasonably expecting the final STC approval to be granted within Q421.

The approval of the Gogo™ 2Ku Wi-Fi STC is specific for this application, but more significantly this will be the first approval by the FAA (or any other regulatory authority) of the CVM™ technology and paves the way for many other applications within the aviation market. All the preparation work leading up to this point, including the development of the WiFi specific Issue Paper provides a defined roadmap for a "generic" Issue Paper to be published by the FAA, for incorporating Structural Health Monitoring into the aviation market (expected soon after the STC approval). This generic Issue Paper will provide a much faster approval process for further applications.

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Post STC Plan

Once the expected STC is granted by the FAA, SMS will immediately approach those airlines with Gogo™ Wi-Fi installations together with operators using similar Wi-Fi installations. Furthermore, SMS will utilise this approved certification to immediately reach out to all the major airlines who previously indicated a high level of interest in the CVM™ technology. From these discussions we will gather pertinent information to identify new applications where the airlines could apply CVM™ sensors. We will work with DE, Delta Airlines, and other engineering firms to utilise the Wi-Fi STC certification as a basis for new certifications. It is expected that future applications will be expedited as the core certification concerns have already been addressed. The Company believes it is best to be focused on just a few initial applications as this will provide us an opportunity to meet our early production demand and to identify our production ramp up requirements.

Boeing 737 Aft Pressure Bulkhead ("APB") project status

Progress continues with Boeing on the 737 APB application. This week, the SMS team performed another flawless installation on a Delta Air Lines 737 in Querétaro Mexico. It was the first APB installation that Boeing has witnessed. A recap meeting with Boeing after the installation to discuss the process and next steps towards certification resulted in Boeing providing an end of year target for their Test Plan details, once this test plan is issued by Boeing, we will then have a path to final certification for the APB application.

AEM Quarterly Activity Update

Canadian-based, wholly owned subsidiary, Anodyne Electronics Manufacturing Corp ("AEM") provides the following activity update for the September 2021 quarter.

- Eagle Audio ("**Eagle**") acquisition is complete. Full integration into the AEM facility has gone smoothly and without any issues. Early direct customer demand for Eagle-specific products is well ahead of expectations.
- New, purpose-built manufacturing facility remains on-track for December completion.
- Development programme for the first of a series of new-generation radio products nearing completion.
- Underlying forward market demand profile for the total AEM product array is continuing to lift, and augers well for a stronger calendar year close, with real momentum building into 2022.

Formal acquisition of Eagle was completed on 10 September 2021. The transfer of raw material inventories and acquired fixed assets to AEM's Kelowna, BC facility took place during the second half of September. Full integration into the AEM platform, including systems and manufacturing set-up, completed by mid-October. AEM is now manufacturing and shipping customer orders from its Kelowna facility.

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Initial customer demand for the Eagle Audio product range has exceeded expectations, and it is with confidence that the SMS Group expects the incremental full year revenue and EBITDA resulting from the acquisition will surpass the levels outlined in recent market updates.

Building and logistical planning work continues with respect to the new facility in Kelowna. There has been cost, logistical and materials supply challenges, however, AEM management is confident that the facility will be fully operational and ready, as planned, by late December 2021. This is an admirable result given the seriously challenging environment through the course of the year thus far. Critically, this will allow a staged move from the current premises to the new facility during December and January without any disruption to daily production and customer service.

As outlined previously, the AEM R&D effort has been ramped up in the last several quarters - with 23 dedicated R&D staff now working on various new product initiatives. The first and most important development is a new generation radio which is nearing completion. AEM has initial orders to hand from a sponsoring (and significant) OEM manufacturer - with the first shipments expected over the next quarter. Strong follow-on interest is anticipated from other major OEMs after this initial order flow.

Underlying customer demand in the general civilian rotorcraft and fixed-wing aviation market is showing signs of lifting as commercial travel resumes in key US and European markets. Whilst AEM continues in the fortunate position of having a high proportion of essential service customers (e.g., Coast Guard, forestry, law enforcement, fire & rescue etc.) the general aviation industry customer base has been softer over the last four quarters. The Company expects this rise in underlying demand in the general aviation market to reflect in forward operating results.

In summary, AEM is on track to exceed previous guidance over the next 12–18 months and management and the Board have confidence that the ongoing AEM investment will provide strong returns to the SMS Group in future years.

Board & Management Changes

The Board has resolved to transition the Company to a more independent board with a skills matrix that includes relevant industry experience and a North American presence.

To this end, Michael Reveley resigned on 21 October 2021 and Bryant McLarty was appointed to the Board to assist with the transition and will step down once a sufficiently independent Board is in place.

Further, Steve Forman has agreed to transition from his current dual role as a Director and Head of Investor Relations to primarily Head of Investor Relations.

The Company also advises that Chief Executive Officer Toby Chandler will participate in a transition of his duties to a full-time, North American based executive with experience in the aerospace industry over the next six months. The Board believes that this transition is a critical next step in the progression of the Company to fully leverage the commercial opportunities associated with the expected FAA approval of the STC qualification.

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We take this opportunity to recognise Mr. Chandler for his invaluable contribution to the success of the Company over the last decade. Mr. Chandler guided the Company out of a difficult situation some 10 years ago, forged the milestone partnership with Delta Airlines and made the crucial strategic decision in 2017 to acquire AEM. Over the last 3 years Mr. Chandler led the effort to obtain the pivotal Wi-Fi STC approval, we thank him for his 10+ years of service and wish him well.

Capital Raising

The Company intends to conduct a capital raising of \$10 million predominantly by way of a Non-Renounceable Rights Issue to existing shareholders (**Rights Issue**). \$5 million of the funds raised will be used for AEM (debt reduction, capex requirements, working capital) and the remaining \$5 million for CVM commercialisation over the next 2-3 years and general working capital. The Company will seek the requisite approvals under the Companies Act 2006 (UK) at a General Meeting of Shareholders to be held on 23 November 2021. Details of the Rights Issue will be disclosed in a Prospectus expected to be lodged in November 2021. The Company expects that the Record Date for the Rights Issue will be shortly after the shareholder meeting.

Appendix 4C Details

The Group's cash balance as at 30 September 2021 was \$1.632 million. The Group recorded a cash outflow from operating activities for the quarter of \$0.619 million. Having announced on 20 October 2021 its intention to conduct a capital raising of \$10 million to be completed in the December quarter, the Group is well funded to continue, and optimise, its 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 September quarter cash flows from operating activities was \$237,500 comprising directors' fees for the period January to June 2021.

As stated above, the Group's cash balance as at 30 September 2021 was **\$1.632 million**. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

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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 September 2021

| 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 | 3,376 | 3,376 |
| 1.2 Payments for | | |
| (a) research and development | (58) | (58) |
| (b) product manufacturing and operating costs | (2,486) | (2,486) |
| (c) advertising and marketing | (30) | (30) |
| (d) leased assets | - | - |
| (e) staff costs | (1,318) | (1,318) |
| (f) administration and corporate costs | (318) | (318) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | - | - |
| 1.5 Interest and other costs of finance paid | (19) | (19) |
| 1.6 Income taxes paid | (51) | (51) |
| 1.7 Government grants and tax incentives | 283 | 283 |
| 1.8 Other | - | - |
| 1.9 Net cash from operating activities | (621) | (621) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire or for: | | |
| (a) entities | - | - |
| (b) businesses ⁽¹⁾ | (4,598) | (4,598) |
| (c) property, plant and equipment | (51) | (51) |
| (d) investments | - | - |
| (e) intellectual property ⁽²⁾ | (292) | (292) |
| (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 (release of bank guarantee) | 66 | 66 |
| 2.6 | Net cash used in investing activities | (4,875) | (4,875) |

(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) | (4) |
| 3.5 | Proceeds from borrowings ⁽³⁾ | 4,843 | 4,843 |
| 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) | (121) | (121) |
| 3.10 | Net cash from financing activities | (4,718) | (4,718) |

(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 5% 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 on 21 October 2021.

| | | | |
|-----------|---|-------|-------|
| 4. | Net increase in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 2,381 | 2,381 |
| 4.2 | Net cash used in operating activities (item 1.9 above) | (621) | (621) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3.months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 4.3 | Net cash used in investing activities (item 2.6 above) | (4,875) | (4,875) |
| 4.4 | Net cash from financing activities (item 3.10 above) | 4,718 | 4,718 |
| 4.5 | Effect of movement in exchange rates on cash held | 29 | 29 |
| 4.6 | Cash and cash equivalents at end of period | 1,632 | 1,632 |

| 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 | 1,632 | 2,428 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (credit card) | - | (47) |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 1,632 | 2,381 |

| 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 | 238 |
| 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 | 5,448 | 4,665 |
| 7.3i Other (related party loan) | 1,110 | 1,110 |
| 7.3ii Other (equipment lease) | 2,076 | 248 |
| 7.4 Total financing facilities | 8,634 | 6,023 |
| 7.5 Unused financing facilities available at quarter end | | 2,611 |
| 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 C\$5million, (increased from C\$3million during the quarter) secured at 3.45%, no maturity date HSBC equipment lease facility of US\$1.5million drawn down during the quarter, secured at 2.95%, with a term of between 3-5 years according to the type of equipment financed. A loan of US\$800,000 was received during the quarter 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 5% per annum. The loan will be repaid from the proceeds of a capital raising announced on 21 October 2021. | | |

| | |
|---|----------------|
| 8. Estimated cash available for future operating activities | \$A'000 |
| 8.1 Net cash from operating activities (item 1.9) | (621) |
| 8.2 Cash and cash equivalents at quarter end (item 4.6) | 1,632 |
| 8.3 Unused finance facilities available at quarter end (item 7.5) | 2,611 |
| 8.4 Total available funding (item 8.2 + item 8.3) | 4,243 |
| 8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1) | 6.83 |
| <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?

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.

29 October 2021

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.