STRUCTURAL MONITORING SYSTEMS

ANNUAL REPORT 2011

Contents

Important Notice

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 acquisition of shares (including substantial holdings and takeovers).

Corporate Directory

BOARD OF DIRECTORS
Mr Toby Chandler
Head of Business Development and Finance

Mr Richard Evans
Non Executive Director

Mr Sam Wright
Non Executive Director

COMPANY SECRETARY
Mr Sam Wright

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Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
Code: SMN
Code: SMNOA
Code: SMNOB

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DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 201..

DIRECTORS

The names of the company's directors in office during the year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Sam Wright (Non-Executive Director/Company Secretary)
Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. He is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the Chartered Secretaries of Australia.

Mr Wright is currently a Non-Executive Director and Company Secretary of ASX listed companies, Buxton Resources Limited, PharmAust Limited and Structural Monitoring Systems plc. He is also Company Secretary for ASX listed companies, Cove Resources Limited and Mount Magnet South NL.

Mr Wright has also filled the role of Director and Company Secretary with a number of unlisted companies. He is the principal of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies.

Richard Evans (Non-Executive Director) Appointed 20 October 2010
Mr Evans holds a Bachelor of Economics and a Bachelor of Laws (majoring in Intellectual Property) and has held positions with a number of law firms in Perth and New York. His expertise in Intellectual Property law will be of significant value to Structural Monitoring Systems.

Toby Chandler (Director/Head of Business Development and Finance) Appointed 2 May 2011
Mr Chandler is Co-Founder and Chief Investment Officer of SEAL Capital Ltd, a Los Angeles based hedge fund specialising in global macro strategies designed to provide risk-adjusted absolute returns investing in an array of global markets, under all market conditions. Before forming SEAL Capital, Mr Chandler was a Partner and Portfolio Manager with private equity and macro hedge fund, Seagate Global Advisors.

Prior to relocating to Los Angeles, Mr Chandler was a Managing Director with Morgan Stanley Inc, New York, where he ran the Bank's Specialist Hedge Fund Desk servicing key clients in an array of financial products, in all markets. Mr Chandler has also held several other senior bank positions including Managing Director and Head of Global Fixed Income Distribution with HSBC Securities (USA) NA, New York; other previous Executive Director positions with Morgan Stanley Inc and Morgan Stanley International Plc, London, as Head of Emerging Markets and Global Fixed Income Distribution; and Vice President with Citigroup NA, New York and Citigroup Australia. He received his B.Comm in Finance from the University of Western Australia and his Masters in Applied Finance and Investment from the Securities Institute of Australia.

Andrew Caminschi (Interim CEO) Appointed 29 November 2010, Resigned 30 April 2011

Mark Vellacott (Managing Director) Resigned 31 October 2010

Malcolm Richmond (Non-Executive Director) Resigned 10 November 2010

Robin Dean (Non-Executive Chairman) Resigned 26 November 2010

DIRECTORS' REPORT (cont'd)

REVIEW AND RESULTS OF OPERATIONS

1. PRINCIPAL ACTIVITIES

The principal activity of the company was as a holding company. The principal activity of the trading subsidiary during the year was the development and commercialisation of its intellectual property for products used in testing and monitoring the structural integrity of materials that are subject to operational stress and fatigue in structures such as aircraft, ships, transportation infrastructure and power plants.

2. BRIEF EXPLANATION OF RESULTS

During the year, the Structural Monitoring Systems Board focussed on strengthening the company's and group's balance sheet through continual review and reduction of ongoing cost base. This has been reflected through new share issues a 60% increase in revenue and the net asset backing per ordinary security increasing by three and a half times compared to the previous corresponding period.

The Company has achieved some important milestones, and despite a difficult operating environment, has continued to progress and develop critical customer relationships, review and complete important internal projects, and identify strategies that should ultimately materially improve the Company's business model, and prospects, in the foreseeable future. Refer to point 6 for details of capital raising during the year.

3. BOARD CHANGES

On 2 May 2011, Mr Toby Chandler was appointed as a Director of the Company, and as Head of Business Development. Mr Chandler is based in Los Angeles, and will be spearheading the Company's directive to gradually move the customer-oriented business activities to the US. Mr Chandler has spent the past 13 years working in senior specialized banking and investment roles in New York, London and Los Angeles.

Mr Richard Evans, a New York based lawyer, was appointed to the Board on 21 October 2010. Mr Evans holds a Bachelor of Economics and a Bachelor of Laws and has held positions with a number of law firms in Perth and New York. His expertise in Intellectual Property law will be of significant value to Structural Monitoring Systems.

The Company underwent a clearing of the decks during the year. At the AGM, Mr Robin Dean resigned as Chairman and a director. Mr Mark Vellacott resigned as Managing Director on 25 October 2010 and Mr Malcolm Richmond resigned as a director on 10 November 2010. The Company appointed Mr Andrew Caminschi as Interim CEO on 21 December 2010 and Mr Caminschi resigned from this interim position on 30 April 2010.

4. OPERATIONS, PROJECTS, RESEARCH & DEVELOPMENT, ORDERS & DELIVERIES

On 24 January 2011, the Company received an order from a new customer. The order was for instrumentation and sensors to support laboratory evaluation of our CVM technology for a number of military aircraft types, including the McDonald–Douglas / Boeing F-15 Eagle.

On 29 March 2011, the Company announced it has received a new order for instrumentation and sensors, based on its patented CVM™ technology, to support operational trials targeting the Lockheed C-130 Hercules platform. Since its introduction in 1957, over 2,300 C-130s Military Transporters have been built, servicing over both military and civilian customers in over 60 countries.

The Company further advanced the successful development of our in-flight structural health monitoring ("SHM") system prototype with Embraer S.A. The system was installed in one of Embraer's primary commercial aircraft models at Embraer's San Jose, Brazil facility during the week of 15 August 2011. This will represent a pioneering achievement in the advancement of commercially potentially viable on-board SHM system, and following a successful field and reliability testing period over the coming months, may ultimately enable the Company to be positioned to deliver the system into a number of commercial/military aircraft manufacturers, across all aircraft sizes and variants.

DIRECTORS’ REPORT (cont’d)

The Company has continued to work very closely with Delta Airlines, The Boeing Company and Sandia Laboratories. Recent discussions with Delta have centered on the potential to engage in a long-term service agreement whereby SMN would deliver specific sensors for important testing on Delta’s “new generation” Boeing 737 fleet – comprising over seventy 737-700 aircraft. These discussions have also raised the potential for a subsequent application program focusing on Delta’s MD-88 and MD-90 fleet, comprising a further 167 aircraft.

Delta and Sandia are continuing to spearhead efforts on behalf of the Company ultimately aimed at securing formal certification for SMN’s patented CVM technology. Progress towards certification, by way of continued dialogue and interaction with the FAA and Boeing in particular, has been gradually moving forward – despite the relative stagnation of SMN’s own operations over the past two years or so. Due to the strong advocacy and efforts on behalf of the Company from Delta and Sandia, SMN is now materially further down the path towards industry, and regulatory, approval in some form for potential widespread commercial application of our technology.

Additionally, the Company has reinstated dialogue with an American aerospace manufacturing company. Previous discussions with the company several years ago centered on the creation of a formal licensing agreement whereby the company would represent SMN’s product suite in the global aviation sector.

The Company has also continued to advance our ongoing relationship with EADS/Airbus, and the Company continues to fully support Airbus’ ongoing testing programs utilizing our technology. The Company has also sought to re-establish, or further advance, commercially-focused dialogue with several other companies in the aviation and infrastructure space who are already users of our CVM technology, or who have previously indicated a strong preference to become engaged.

In regard to the Company’s ongoing monitoring and protection of our valuable suite of patents, Griffith Hack was retained to perform a full review of our patent portfolio. This review was successfully completed in late-June, and in lieu of the report issued by Griffith Hack, the Company is satisfied with the present coverage of, and protection offered to, our core intellectual property assets.

The Company has also initiated dialogue with key specialist manufacturing concerns in order to evaluate possible strategic partnerships which might ultimately streamline our manufacturing process, reduce lead times, and ultimately significantly reduce our overall production-based cost structure.

In summary, the Company continues to move towards the ultimate aim of achieving true commercial viability of our CVM technology, with a particular focus on the global aviation sector. This will continue to be a key operational focus, which is appropriate at this juncture given the widespread acceptance, support and increasing familiarity with our unique product suite in this sector. However, the Company is fully aware of, and excited by, the potential applications for our technology in many other commercial fields including broad infrastructure applications and other transportation industries. In this regard, the Company will continue to monitor and address these opportunities, and will continue to focus increasingly on the US and European markets where such opportunities are widespread and numerous. The ongoing establishment of an operational base in the US will greatly facilitate this aim in the coming months and quarters.

5. ANNUAL GENERAL MEETING

On 26 November 2010, the Company held their Annual General Meeting of Shareholders at RSM Bird Cameron, 8 St Georges Terrace, Perth, Western Australia. All resolutions that were put were passed on a show of hands.

6. CAPITAL RAISING

On 19 April 2011, the Company confirmed that it has completed allotment and issue of 94,452,784 shares, together with 94,452,784 attaching options expiring 31/03/2012 raising $944,527 for the Company.

DIRECTORS' REPORT (cont'd)

On 31 August 2010 the Company announced the successful completion of its capital raising via the issue of 55,521,857 shares at $0.009 per share together with 55,521,857 free attaching options to raise approximately $500,000. Mac Equity Partners Pty Ltd was the lead manager of the placement.

7. SERIOUS LOSS OF CAPITAL

The Directors note that as at 30 June 2011, the net assets of the Company were $472,670. Section 656 of the Companies Act 2006 states that where the net assets of a public company are half or less than its called-up share capital, the directors must convene a general meeting within 28 days, for a date not later than 56 days, after any of the directors become aware of the situation. The meeting must consider whether any, and if so what, steps should be taken to deal with the situation.

The Directors intend to discuss the serious loss of capital of Structural Monitoring Systems Plc pursuant to s656 of the 2006 Companies Act at the AGM. The Directors propose resolving the situation during the course of the year.

8. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under UK company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The directors are responsible for making a declaration in relation to certain matters required to be dealt with in financial statements under the Australian Corporations Act 2001 and the Australian Securities Exchange Listing Rules. This declaration is set out on page 56.

9. EVENTS SUBSEQUENT TO BALANCE DATE

On 6th July 2011, the Company sent a letter to all shareholders who held 71,428 shares or less (representing $500 or less at a market price of 5 July 2011 of 0.7cents) to share the opportunity to participate in a sale facility (the "Voluntary Share Sale Facility"). Structural Monitoring Systems intended to sell the unmarketable parcels of shares held (being the holding of 71,428 shares or less). The Company dispatched a notice to holders of unmarketable parcels on 21 December

DIRECTORS' REPORT (cont'd)

2010 however ASX Listing Rule 15.13 requires the constitution to contain the provisions specified in Listing Rule 15.13 or Listing Rule 15.13A. The articles of association of Structural Monitoring Systems do not include such provisions and therefore the 21 December letter is not effective. However, the implementation of this Voluntary Share Sale Facility enabled holders of unmarketable parcels to voluntary sell their shares without brokerage and handling fees.

On 26th September 2011, the Company announced that it had signed a Memorandum of Understanding (MOU) with Romar Engineering ("Romar") regarding the manufacture of SMS products by Romar. Under the terms of the MOU, SMS will seek to outsource production to Romar Engineering of components used in all SMS products, including the PM200 diagnostic tool, Laboratory Kits, CVM switches, sensors and leads – in addition to the specialised connectors Romar is currently manufacturing for SMS.

10. RESULTS AND DIVIDEND

The operating loss, after income tax, for the year was $1,253,182 (2010: $821,849). No dividends were proposed or paid during the financial year.

11. SHARE CAPITAL

The impact on share capital and share premium account of the share issues in the year, is disclosed in Note 17 to the Financial Statements.

12. DIRECTORS MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Group during the financial year are:

	Board Meetings		Audit Committee		Remuneration Committee	
Director	**A**	**B**	**A**	**B**	**A**	**B**
S Wright	9	9	1	1	1	1
R Evans	6	7	-	-	1	1
R Dean	4	4	1	1	-	-
A Caminschi	4	4	-	-	-	-
M Richmond	3	3	-	-	-	-
M Vellacott	2	2	-	-	-	-
T Chandler	1	1	-	-	-	-

A – Number of meetings attended
B – Number of meetings held during the time which the director held office during the year

DIRECTORS' REPORT (cont'd)

13. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

Details of the nature and amount of each major element of remuneration of each director of the Group and each of the Group executives who receive the highest remuneration are:

	Primary	Post Employment	Other	Equity	Total
30 June 2011	**Salary & Fees**	**Superannuation**	**Social Security**	**Shares**	
Specific Directors	**$**	**$**	**$**	**$**	**$**
Mark Vellacott	91,667	8,250	-	-	99,917
Sam Wright	69,167	8,475	-	20,000	97,642
Andrew Caminschi	32,500	2,363	-	-	34,863
Robin Dean	12,500	1,875	-	8,888	23,263
Toby Chandler	20,000	-	-	-	20,000
Richard Evans	19,166	-	-	-	19,166
Malcolm Richmond	6,250	844	-	1,281	8,375
Total Specified Directors	**251,250**	**21,807**	**-**	**30,169**	**303,226**
Specific Executives					
Colin McDonald	45,069	4,056	-	-	49,125
Total Specified Executives	**45,069**	**4,056**	**-**	**-**	**49,125**
Grand Total	**296,319**	**25,863**	**-**	**30,169**	**352,251**

	Primary	Post Employment	Other	Equity	Total
30 June 2010	**Salary & Fees**	**Superannuation**	**Social Security**	**Shares**	
Specific Directors	**$**	**$**	**$**	**$**	**$**
Mark Vellacott	275,000	24,750	-	-	299,750
Robin Dean	39,583	3,563	-	-	43,146
Malcolm Richmond	25,000	2,250	-	-	27,250
Sir John Walker	11,482	-	531	-	12,013
Sam Wright	8,333	750	-	-	9,083
Total Specified Directors	**359,398**	**31,313**	**531**	**-**	**391,242**
Specific Executives					
Colin McDonald	172,000	15,480	-	-	187,480
Total Specified Executives	**172,000**	**15,480**	**-**	**-**	**187,480**
Grand Total	**531,398**	**46,793**	**531**	**-**	**578,722**

The remuneration policy of the Group is outlined in Note 23 (b) in the Notes to the Financial Statements.

DIRECTORS' REPORT (cont'd)

14. OPTIONS GRANTED AS COMPENSATION

No options over ordinary shares in the Group were granted as incentives to directors or employees during the reporting period.

The options granted to Mr Vellacott expired on his resignation 31 October 2010.

No shares were issued on exercise of remuneration options.

15. SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

Director	Date Appointed	Ordinary Shares	Percentage of total issued shares of the Company	Options remaining in issue
Specified Directors				
Mr Sam Wright	25 May 2010	4,000,000	0.75	833,334
Mr Richard Evans	20 October 2010	3,703,704	0.69	3,703,704
Mr Toby Chandler	2 May 2011	21,035,181	3.93	-
Total		**28,738,885**	**5.37**	**4,573,038**

The above relates to share and option holdings as at 30 June 2011.

16. AUDITORS

Details of the amounts paid to the auditor of the Group, RSM Tenon Audit Limited, and other auditors for audit and non-audit services provided during the year are set out below.

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Amounts received or due and receivable RSM Tenon Limited for:				
an audit or review of the financial report of the entity and the Group	21,176	-	21,176	-
Other auditors	-	32,690		32,690
Amounts received or due and receivable by RSM Bird Cameron Partners for:	-	-	-	-
an audit or review of the financial report of the principal trading subsidiary	30,000	-	-	-
Other auditors	-	36,082	-	19,289
other services in relation to the entity and any other entity in the consolidated entity				
tax compliance	5,250	4,862	3,000	4,862
	56,426	**73,634**	**24,176**	**56,841**

DIRECTORS' REPORT (cont'd)

17. INFORMATION GIVEN TO AUDITORS

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the Group's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

18. CREDITOR PAYMENT POLICY

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2012. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2011, the Group's trade creditors represented 50.69 days' purchases (2010: 47.33 days).

19. FINANCIAL INSTRUMENTS

The Group does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk or liquidity risk. Further information is provided in note 18 to the Financial Statements.

As a result of operations in both the United Kingdom and Australia, the Group's balance sheet can be affected by movements in the UK£/A$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The foreign currency risk exposure is not deemed to be significant at this time although the risk could increase in the future as international commercialisation of the Group's technologies increase. There is currently no form of currency hedging or risk strategy in place, but this policy will be reviewed and strategies implemented when deemed prudent.

20. KEY PERFORMANCE INDICATORS

At this stage of the Group's development it does not have in place formal key performance indicators (KPIs). However, the Board held meetings at least monthly during the year where it reviewed reports prepared by senior executives, which outlined progress in key areas such as finance, business development and technical development. Special Board meetings are held when necessary when the monitoring of the financial position, cost restructuring and capital raising measures becomes critical.

21. PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks facing the Group are detailed in note 18 of the Directors' Report. In addition, the group faces the commercial risks of obtaining additional financing, of sustaining quality of service delivery, of staff retention and of the ability to renew or extend in-licensing or other strategic partnership agreements with a third-party. The directors continuously monitor these risks, both, formally at Board meetings and informally throughout the year, particularly during the strategic planning and budgeting processes.

By Order of the Board

Sam Wright
Director
30 September 2011

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 June 2011

		CONSOLIDATED		PARENT	
		2011	**2010**	**2011**	**2010**
	Note	**$**	**$**	**$**	**$**
Continuing Operations					
Revenue					
Sale of goods		302,140	187,751	-	-
Cost of Sales		(130,664)	(77,127)	-	-
Gross profit		171,476	110,624	-	-
Other Income	4(a)	9,473	547,540	-	-
Depreciation charges	4(d)	(6,842)	(21,569)	-	-
Impairment charges		-	-	(706,493)	(307,191)
Occupancy expenses		(111,093)	(133,640)	-	-
Marketing expenses		-	(3,943)	-	-
Research and development expenses	4(g)	(332,664)	(370,203)	-	-
Administrative expenses		(973,412)	(950,133)	(422,335)	(70,226)
Loss from continuing operations before income tax and finance costs		(1,243,062)	(821,324)	(1,128,828)	(377,417)
Finance income	4(c)	8,831	6,231	524	-
Finance costs		-	(3,398)	-	-
Foreign currency translations	4(d)	(18,951)	(3,358)	15,776	23,890
Income tax expenses	5(a)	-	-	-	-
Loss after finance costs and tax from continuing operations		(1,253,182)	(821,849)	(1,112,528)	(353,527)
Loss attributable to members of the parent		(1,253,182)	(821,849)	(1,112,528)	(353,527)
Other comprehensive income					
Foreign currency translations		15,776	23,890	-	-
Total Comprehensive Income for the Period attributable to members of the parent		**(1,237,406)**	**(797,959)**	**(1,112,528)**	**(353,527)**
Loss per share ($ per share)					
- basic for loss from continuing operations	6	(0.281)	(0.022)		
- diluted for loss from continuing operations	6	(0.281)	(0.022)		

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 June 2011

		CONSOLIDATED		PARENT	
		2011	**2010**	**2011**	**2010**
	Note	**$**	**$**	**$**	**$**
ASSETS					
Non-Current Assets					
Property, plant and equipment	7	4,685	9,554	-	-
Investment in subsidiaries	8	-	-	480,559	-
Total Non-current assets		4,685	9,554	480,559	-
				-	
Current Assets					
Inventories	10	12,213	80,513	-	-
Prepayments		-	1,312	-	-
Trade and other receivables	11	92,775	84,009	-	-
Cash and cash equivalents	12(b)	590,543	179,705	389	2,100
Total Current Assets		695,531	345,539	389	2,100
TOTAL ASSETS		**700,216**	**355,093**	**480,948**	**2,100**
LIABILITIES					
Current Liabilities					
Trade and other payables	15	218,466	229,541	8,278	14,797
Provisions	16	9,080	13,371	-	-
Total Current Liabilities		227,546	242,912	8,278	14,797
TOTAL LIABILITIES		**227,546**	**242,912**	**8,278**	**14,797**
NET ASSETS		472,670	112,181	472,670	(12,697)
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	17	31,617,416	30,794,209	31,617,416	30,794,209
Share premium account	17	12,334,669	11,861,031	12,334,669	11,861,031
Accumulated losses		(41,709,247)	(40,456,065)	(41,669,581)	(40,557,053)
Other reserves		(1,770,168)	(2,086,994)	(1,809,834)	(2,110,884)
TOTAL EQUITY		**472,670**	**112,181**	**472,670**	**(12,697)**

Approved by the Board and authorised for issue on 30 September 2011

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Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 June 2011

	Note	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $	PARENT 2011 $	PARENT 2010 $
Cash flows from operating activities					
Receipts from customers		311,103	163,470	-	-
Payments to suppliers and employees		(1,323,023)	(1,524,408)	(221,659)	(70,102)
Partnership income		-	537,477	-	-
Income tax refund		-	269,064	-	-
Other income		9,424	13,631	-	-
Net cash flows used in operating activities	12(a)	(1,002,496)	(540,766)	(221,659)	(70,102)
Cash flows from investing activities					
Interest received		8,831	6,231	524	-
Purchase of property, plant and equipment		(1,973)	(2,005)	-	-
Net cash flows from investing activities		6,858	4,226	524	-
Cash flows from financing activities					
Finance costs		-	(3,398)	-	-
Proceeds from issue of shares(net of costs)		1,390,700	350,942	1,390,700	350,942
Loan to subsidiary		-	-	(1,187,052)	(307,191)
Net cash flows from financing activities		1,390,700	347,544	203,648	43,751
Net increase/(decrease) in cash and cash equivalents		395,062	(188,996)	(17,487)	(26,351)
Net foreign exchange differences		15,776	21,430	15,776	23,890
Cash and cash equivalents at beginning of year		179,705	347,271	2,100	4,561
Cash and cash equivalents at end of year		590,543	179,705	389	2,100

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 June 2011

CONSOLIDATED	Issued Capital $	Accumulated losses $	Share Premium Reserve $	Share Based Payment Reserve $	Foreign Exchange Reserves $	Total $
At 1 July 2009	30,648,561	(39,634,216)	11,670,488	199,357	(2,310,241)	573,949
Currency translation differences	-	-	-	-	23,890	23,890
Loss for the year	-	(821,849)	-	-	-	(821,849)
Total comprehensive income for the year	-	(821,849)	-	-	23,890	(797,959)
Cost of share based payments	-	-	-	-	-	-
Issue of share capital	145,648	-	263,566	-	-	409,214
Cost of share issues	-	-	(73,023)	-	-	(73,023)
At 30 June 2010	30,794,209	(40,456,065)	11,861,031	199,357	(2,286,351)	112,181
Currency translation differences	-	-	-	-	15,776	15,776
Loss for the year	-	(1,253,182)	-	-	-	(1,253,182)
Total comprehensive income for the year	-	(1,253,182)	-	-	15,776	(1,237,406)
Cost of share based payments	-	-	-	301,050	-	301,050
Issue of share capital	823,207	-	750,758	-	-	1,573,965
Cost of share issues	-	-	(277,120)	-	-	(277,120)
At 30 June 2011	**31,617,416**	**(41,709,247)**	**12,334,669**	**500,407**	**(2,270,575)**	**472,670**

PARENT	Issued Capital $	Accumulated losses $	Share Premium Reserve $	Share Based Payment Reserve $	Foreign Exchange Reserves $	Total $
At 1 July 2009	30,648,561	(40,203,526)	11,670,488	199,357	(2,310,241)	4,639
Currency translation differences	-	-	-	-	-	-
Loss for the year	-	(353,527)	-	-	-	(353,527)
Total comprehensive income for the year	-	(353,527)	-	-	-	(353,527)
Cost of share based payments	-	-	-	-	-	-
Issue of share capital	145,648	-	263,566	-	-	409,214
Cost of share issues	-	-	(73,023)	-	-	(73,023)
At 30 June 2010	30,794,209	(40,557,053)	11,861,031	199,357	(2,310,241)	(12,697)
Currency translation differences	-	-	-	-	-	-
Loss for the year	-	(1,112,528)	-	-	-	(1,112,528)
Total comprehensive income for the year	-	(1,112,528)	-	-	-	(1,112,528)
Cost of share based payments	-	-	-	301,050	-	301,050
Issue of share capital	823,207	-	750,758	-	-	1,573,965
Cost of share issues	-	-	(277,120)	-	-	(277,120)
At 30 June 2011	31,617,416	(41,669,581)	12,334,669	500,407	(2,310,241)	472,670

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2011

1. CORPORATE INFORMATION

The financial report of Structural Monitoring Systems Plc for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 21 September 2011.

Structural Monitoring Systems Plc is a company limited by shares incorporated in the United Kingdom whose shares are publicly traded on the Australian Securities Exchange (ASX).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements and those of the parent entity are presented in Australian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted by the European Union. The exchange rate at the balance sheet date was £1:$1.50, and the average for the year was £1:$1.61.

(b) Going Concern

The financial statements have been prepared on the 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 financial statements, the company and consolidated entity incurred losses of $1,112,528 and $1,253,182 respectively and had net cash outflows from operating activities of $221,659 and $1,002,469 respectively for the year ended 30 June 2011.

These factors indicate significant uncertainty as to whether the company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the company and consolidated entity will be able to continue as going concerns, after consideration of the following factors:

- Ability to issue additional shares in the Company to raise capital;
- Further commercial exploitation of the Company's technologies and products at amounts sufficient to meet proposed expenditure commitments; and
- Ability to further reduce operational cost levels, to conserve cash in the event that capital raisings are delayed or partial.

Accordingly, the Directors believe that the company and consolidated entity will be able to continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the company and consolidated entity do not continue as going concerns.

(c) Statement of compliance

The consolidated financial statements and the financial statements of the parent company have been prepared in accordance with International Financial Reporting Standards ('IFRS') and its interpretations adopted by the European Union. The financial statements have been prepared in accordance with the Companies Act 2006 and parts of the Australian Corporations Act 2001 that apply to them.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and parent entity financial statements.

(d) Accounting standards and Interpretations

The company has adopted the all new and revised IFRS issued by IASB which are mandatory to apply to current financial year. This has no effect on the current or prior period results or statement of financial position.

(e) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Structural Monitoring Systems Plc at the end of reporting period. A controlled entity is any entity over which Structural Monitoring Systems Plc has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 20 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date. All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency Structural Monitoring Systems Plc is UK pounds and its presentation currency is Australian dollars. The functional currency of the overseas subsidiary Structural Monitoring Systems Limited is Australian Dollars.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(iii) Group entities

The results and financial position of all the Company entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to foreign currency translation reserve.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale where applicable.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis to write off the cost less estimated residual value over the estimated useful life of the asset as follows:

Plant and equipment	6.66% - 20%
Furniture and fittings	6.66% - 20%
Office fit-out	33.33% (or remaining term of lease, if less)
Computers	20% - 40%
Manufactured equipment	33.33%

Leasehold buildings and improvements are written off over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The residual values and estimated useful lives of the assets are reviewed at each financial year end.

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

(h) Intangible Assets

(i) Research and patent costs are expensed as incurred.
(ii) Development expenditure incurred is carried forward only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	Technology Licence	**Patents and Licences**
Useful lives	Finite	Finite
Method used	5 years – Straight line	5 years- Straight line
Internally generated/Acquired	Acquired	Acquired
Impairment test /Recoverable amount testing	The balance has been fully amortised	The balance has been fully amortised

(i) Recoverable amount of assets

At each reporting date, the group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials - purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(k) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(l) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Share-based payment transactions

The Group provides benefits to employees (including executive directors) in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions'). The fair value of options is determined using the Black-Scholes pricing model.

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP), which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Structural Monitoring Systems Plc ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

(p) Income tax

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss, and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

(q) Other taxes

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

- where the VAT/GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of VAT/GST included.

The net amount of VAT/GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the VAT/GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of VAT/GST recoverable from, or payable to, the taxation authority.

(r) Employee Entitlements

Provision is made for long service and annual leave payable to employees on the basis of relevant statutory requirements or contractual entitlements applicable in Australia and other countries.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within credit term.

(t) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(u) Critical accounting estimates and judgements

The preparation of a financial report is in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions. Those which may materially affect the carrying amounts of assets and liabilities reported in future periods are discussed below.

(i) Impairment of non-financial assets

The Company assesses impairment on all assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. These include technology and economic environments. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate a number of key estimates and assumptions.

(ii) Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience. Adjustments to useful lives are made when considered necessary.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(v) New accounting standards for application in future period

At the date of this financial report the following accounting standards, which may impact the consolidated entity in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application Date (financial years beginning)
IFRS 9	Financial Instruments	Replaces the requirements of IAS 39 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013
IAS 24	Related Party Disclosures	Revised standard. The definition of a related party is simplified to clarify its intended meaning and eliminate inconsistencies from the application of the definition	1 January 2014
IAS 10	Events After Reporting Period	The main change from the previous version of IAS 10 was a limited clarification of paragraphs 12 and 13 (paragraphs 11 and 12 of the previous version of IAS 10). As revised, those paragraphs state that if an entity declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.	1 January 2011
IAS 27	Consolidated and Separate Financial	Subsequent amendments resulting from IFRSs issued up to 31 December 2010.	1 July 2009

The Group does not anticipate the early adoption of any of the above International Financial Reporting Standards. The effect of these standards is not considered significant.

SMS further advanced the successful development of our in-flight structural health monitoring system prototype with Embraer. Embraer is the world's third-largest commercial aircraft company.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group operates predominantly in one industry, being Structural Health Monitoring. The main geographic areas that the entity operates in are the UK, USA and Australia. The Group also had operations in the UK, USA and Australia, although the Group no longer has employees based in the UK. All segments are now managed from the Australian office. The parent company is registered in the UK so that portion of the loss that pertains to maintaining that company is disclosed in that segment.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2011 and 2010:

	Australia $	US $	UK $	Total $
Year ended 30 June 2011				
Revenue				
Sales to external customers	142,557	159,583	-	302,140
Finance income	8,307	-	524	8,831
Other operating income from external parties	-	-	-	
Revenue from continuing operations	150,864	159,583	524	310,971
Inter-segment sales	-	-	-	-
Segment revenue	**150,864**	**159,583**	**524**	**310,971**
Sales revenue by customer location				
Australasia	16,516	-	-	16,516
Europe	126,041	-	-	126,041
USA	-	159,583	-	159,583
Total revenue	142,557	159,583	-	302,140
Result				
Segment result	(990,955)	159,583	(421,810)	1,253,182
Unallocated expenses	-	-	-	-
Loss before tax	(990,955)	159,583	(421,810)	1,253,182
Income tax credit	-	-	-	-
Loss for the year	(990,955)	159,583	(421,810)	1,253,182
Assets and liabilities				
Segment assets	699,828	-	389	700,217
Unallocated assets	-	-	-	-
Total assets	699,828	-	389	700,217
Segment liabilities	219,269	-	8,278	227,546
Unallocated liabilities	-	-	-	-
Total liabilities	**219,269**	**-**	**8,278**	**227,546**
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	4,869	-	-	4,869

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	Australia $	US $	UK $	Total $
Year ended 30 June 2010				
Revenue				
Sales to external customers	49,784	137,967	-	187,751
Finance income	6,231	-	-	6,231
Other operating income from external parties	-	547,540	-	547,540
Revenue from continuing operations	56,015	685,507	-	741,522
Inter-segment sales	-	-	-	-
Segment revenue	**56,015**	**685,507**	**-**	**741,522**
Sales revenue by customer location				
Australasia	-	-	-	-
Europe	49,784	-	-	49,784
USA		137,967	-	137,967
Total revenue	**49,784**	**137,967**	**-**	**187,751**
Result				
Segment result	(889,550)	137,967	(70,266)	(821,849)
Unallocated expenses	-		-	-
Loss before tax	(889,550)	137,967	(70,266)	(821,849)
Income tax credit	-		-	-
Loss for the year	**(889,550)**	**137,967**	**(70,266)**	**(821,849)**
Assets and liabilities				
Segment assets	352,993	-	2,100	355,093
Unallocated assets	-	-	-	-
Total assets	**352,933**	**-**	**2,100**	**355,093**
Segment liabilities	228,116	-	14,796	242,912
Unallocated liabilities	-	-	-	-
Total liabilities	**228,116**	**-**	**14,796**	**242,912**
Other segment information				
Capital expenditure	2,005	-	-	2,005
Depreciation	21,569	-	-	21,569

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	2011 $	2010 $	2011 %	2010 %
Major customers				
During the year 3 customers (2010: 3) each accounted for more than 10% of the Group's revenues.				
Customer 1	159,583	108,860	53	58
Customer 2	37,975	20,983	12	11
Customer 3	34,135	19,983	11	10
	231,693	149,826	76	79

4. INCOME AND EXPENSES

(a) Other income

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Licence option fees	-	537,477	-	-
Settlement discount	-	1,818	-	-
Insurance refund	-	8,245	-	-
Gain on sale of asset	5,237	-	-	-
Tax refunds	2,092	-	-	-
Sundry income	2,144	-	-	-
	9,473	547,540		-

(b) Finance costs

Interest expense	-	(3,398)		-

(c) Finance income

Interest on tax rebate	-	2,662	-	2,662
Bank interest	8,831	3,569	524	-
	8,831	6,231	524	2,662

(d) Depreciation, amortisation and foreign exchange

Differences included in statement of comprehensive income

Depreciation	(6,842)	(21,569)	-	-
Net foreign exchange differences	(18,951)	(3,740)	-	-
	(25,793)	(17,829)	-	

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Impairment charges

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Impairment of investment in subsidiary	-	-	706,493	307,191
Impairment of fixed assets	-	-	-	-
	-	-	706,493	307,191

(f) Employee benefits expense

Wages and salaries	330,903	615,263	-	-
Workers' compensation costs	5,490	5,380	-	-
Superannuation costs	44,767	61,115	-	-
Social security costs	-	531	-	-
	381,160	682,289	-	-

	No	No		
Average monthly number of employees				
Administration	2	2		
Business development	-	1		
Operations and technical	2	2		
Total average employees	4	5		

(g) Research and development costs

Research and development costs charged	332,664	370,203	-	-

5. INCOME TAX

Major components of income tax expense for the years ended 30 June 2011 and 30 June 2010 are:

(a) Income tax expense

Current tax	-	-	-	-
Deferred tax	-	-	-	-
Income tax expense (benefit) reported in statement of comprehensive income	-	-	-	-

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the group's effective income tax rate for the years ended 30 June 2011 and 2010 as follows:

Accounting loss before tax from continuing operations	(1,253,182)	(821,849)	(1,112,528)	(353,527)
Accounting loss before income tax	**(1,253,182)**	**(821,849)**	**(1,112,528)**	**(353,527)**
At the statutory income tax rate of 30% (2010:30%)	(375,955)	(246,555)	(333,758)	(113,225)
Expenditure not allowable for income tax purposes	1,276	111,061	1,089	-
Research and development benefit	-	-	-	-
Deferred tax asset not recognised	374,679	135,494	332,669	113,225
Income tax credit reported in statement of comprehensive income	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
CONSOLIDATED	$	$	$	$	$	$
Accrued expenses	3,150	-	-	-	3,150	-
Employee entitlement provisions	1,287	-	-	-	1,287	-
Superannuation accrued	2,620	-	-	-	2,620	-
Costs deductible over five years	6,047	-	-	-	6,047	
Unrealised FX gain	-	-	-	(21,061)	-	(21,061)
Property plant and equipment	18,929	-	-	-	(18,929)	-
Tax losses	-	21,061	-	-	-	21,061
Tax (assets) liabilities	32,033	21,061	-	(21,061)	32,033	-
Set off of tax	(32,033)	(21,061)	-	21,061	(32,033)	-
Net tax (assets) liabilities	**-**	**-**	**-**	**-**	**-**	**-**

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
PARENT	$	$	$	$	$	$
Costs deductible over five years	20,425	-	-	-	20,425	
Property plant and equipment	-	-	(123)	-	(123)	-
Tax (assets) liabilities	20,425	-	(123)	-	20,302	-
Set off of tax	(20,425)	-	123	-	(20,302)	-
Net tax (assets) liabilities	-	-	-	-	-	-

Unrecognised deferred tax assets

	CONSOLIDATED		PARENT	
	2011	2010	2011	2010
	$	$	$	$
Provisions	1,287	-	-	-
Property, plant and equipment	18,929	157,508	-	-
Impairment of investments	-	-	706,493	307,191
Patents	-	112,330	-	-
Capital raising costs	6,047	9,492	20,425	9,492
Tax losses	35,068,479	6,468,104	5,328,554	1,342,571
	35,094,742	6,747,434	6,055,472	1,659,254

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not currently probable that future taxable profit will be available against which the Group can utilise these benefits.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

6. LOSS PER SHARE

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 there were no options on issue which would be potential ordinary shares having a dilutive effect. The number of anti dilutive options at 30 June 2011 was 236,771,516 (2010: 118,887,066).

The following reflects the income and share data used in the total operations basic loss per share computations:

	CONSOLIDATED	
	2011 $	2010 $
Net loss attributable to equity holders from continuing operations	(1,253,182)	(821,849)
	Number of shares	Number of shares
Weighted average number of ordinary shares for basic loss per share	446,463,412	362,594,079
Weighted average number of ordinary shares for diluted loss per share	446,463,412	362,594,079

7. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED			PARENT		
	Leasehold Improvements $	Plant and equipment $	Total $	Leasehold Improvements $	Plant and equipment $	Total $
Year ended 30 June 2011						
Cost						
At 1 July 2010	154,079	891,789	1,045,868	-	29,606	29,606
Additions	-	1,973	1,973	-	-	-
Disposals	-	(8,271)	(8,271)	-	-	-
At 30 June 2011	154,079	885,491	1,039,570	-	29,606	29,606
Depreciation						
At 1 July 2010	154,079	882,235	1,036,314	-	29,606	29,606
Charge for the year	-	6,842	6,842	-	-	-
Eliminated on disposal	-	(8,271)	(8,271)	-	-	-
At 30 June 2011	154,079	880,806	1,034,885	-	29,606	29,606
Net book value at 30 June 2011	**-**	**4,685**	**4,685**	**-**	**-**	**-**
Year ended 30 June 2010						
Cost						
At 1 July 2009	154,079	889,784	1,043,863	-	29,606	29,606
Additions	-	2,005	2,005	-	-	-
Disposals	-	-	-	-	-	-
At 30 June 2010	154,079	891,789	1,045,868	-	29,606	29,606
Depreciation						
At 1 July 2009	154,079	860,666	1,014,745	-	29,606	29,606
Charge for the year	-	21,569	21,569	-	-	-
Eliminated on disposal	-	-	-	-	-	-
At 30 June 2010	154,079	882,235	1,036,314	-	29,606	29,606
Net book value at 30 June 2010	-	9,554	9,554	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

8. INVESTMENT IN SUBSISIARIES

	PARENT		
	Loan to Subsidiary Undertaking $	**Investment in Subsidiary Undertaking $**	**Total $**
Year ended 30 June 2011			
Cost			
At 1 July 2010	-	36,875,173	36,875,173
Arising during the year	1,187,052	-	1,187,052
Reclassification of loan as investment	(1,187,052)	1,187,052	-
At 30 June 2010	**-**	**38,062,225**	**38,062,225**
Impairment			
At 1 July 2010	-	36,875,173	36,875,173
Impairment charge	-	706,493	706,493
	-	37,581,666	37,581,666
Net carrying amount at 30 June 2011	**-**	**480,559**	**480,559**
Year ended 30 June 2010			
Cost			
At 1 July 2009	-	36,567,982	36,567,982
Arising during the year	307,191	-	307,191
Reclassification of loan as investment	(307,191)	307,191	-
At 30 June 2010	**-**	**36,875,173**	**36,875,173**
Impairment			
At 1 July 2009	-	36,567,982	36,567,982
Impairment charge	-	307,191	307,191
	-	36,875,173	36,875,173
Net carrying amount at 30 June 2010	**-**	**-**	**-**

The intercompany loan has been reclassified as an investment as at 30 June 2011 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cashflows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the loan is likely to be the nature of an investment. The investment has had an impairment charge applied to write the balance down to net asset of the subsidiary.

9. INTANGIBLE ASSETS

	CONSOLIDATED				PARENT
	Goodwill $	**Technology Licence $**	**Patents and Licences $**	**Total $**	**Total $**
Year ended 30 June 2011					
Cost					
At 1 July 2010 and 30 June 2011	**20,868,694**	**125,000**	**1,760,616**	**22,754,310**	**-**
Impairment					
At 1 July 2010 and 30 June 2011	**20,868,694**	**-**	**-**	**20,868,694**	**-**
Amortisation					
At 1 July 2010 and 30 June 2011	**-**	**125,000**	**1,760,616**	**1,885,616**	**-**
Net book value at 30 June 2011	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	CONSOLIDATED				PARENT
	Goodwill $	Technology Licence $	Patents and Licences $	Total $	Total $
Year ended 30 June 2010					
Cost					
At 1 July 2009 and 30 June 2010	**20,868,694**	**125,000**	**1,760,616**	**22,754,310**	**-**
Impairment					
At 1 July 2009 and 30 June 2010	**20,868,694**	**-**	**-**	**20,868,694**	**-**
Amortisation					
At 1 July 2009 and 30 June 2010	**-**	**125,000**	**1,760,616**	**1,885,616**	**-**
Net book value at 30 June 2010	**-**	**-**	**-**	**-**	**-**

10. INVENTORIES

	CONSOLIDATED		PARENT	
	2011 **$**	**2010** **$**	**2011** **$**	**2010** **$**
Work-in-progress (at cost)	-	56,474	-	-
Finished goods (at net realisable value)	12,213	24,039	-	-
Total inventories at lower of cost and net realisable value	12,213	80,513	-	-

Movement in inventories are as follows:

	Work-in-Progress	**Finished Goods**		
At beginning of year	56,474	24,039	-	-
Amount used	-	(11,826)	-	-
Amount written off	(56,474)	-		
At end of year	-	12,213	-	-

11. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables	92,775	84,009	-	-
	92,775	84,009	-	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

12(a) RECONCILIATION FROM THE NET LOSS AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Net Loss for the year	(1,253,182)	(821,849)	(1,112,528)	(377,417)
Adjustments for:				
Finance income	(8,831)	(6,231)	(524)	-
Finance costs	-	3,398	-	-
Depreciation and amortisation	6,842	21,569	-	-
Currency translation	-	3,740	(15,776)	-
Share based payments	207,195	-	207,195	-
Impairment of investment in subsidiary	-	-	706,493	307,191
Changes in assets and liabilities				
Inventories	68,300	34,824	-	-
Trade and other receivables	(7,455)	(2,170)	-	-
Prepayments	-	(16,022)	-	-
Trade and other payables	(15,365)	241,975	(6,519)	124
Net cash from operating activities	(1,002,496)	(540,766)	(221,659)	(70,102)

12(b) CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Cash at bank	590,543	179,705	389	2,100

13. EMPLOYEE BENEFITS

(a) Employees share option plan

The Group has an employee share options plan (ESOP) for the granting of non-transferable options to executive directors and employees with more than six months' service at the grant date. No options were issued under the ESOP during the reporting period, or during the prior reporting period. The options are cancelled upon the director or employee leaving the service of the Group.

b) Pensions and other post-employment benefit plans

In previous years the Company was below the threshold requiring it to maintain a Stakeholder Pension for its UK employees and there is no equivalent legislation in Australia. As there are no longer any employees based in the UK the Group does not maintain a pension fund.

14. SHARE BASED PAYMENTS

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Corporate services	167,250	-	167,250	-
Capital raising fee	133,800		133,800	
	301,050	-	301,050	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The company issued share options to employees and professional advisors during the year in respect of services performed, and vested immediately. The maximum term of the options is 2.66 years. The movement in share options outstanding is shown in Note 17.

The following table sets out the assumptions made in determining the fair value of the options granted during the year ended 30 June 2011.

2011	Options Granted In November 2010
Expected volatility (%)	170
Risk free interest rate (%)	5.09
Weighted average expected life of options (years)	2.66
Option exercise price (cents)	0.85
Share price at grant date (cents)	0.8
Fair value of option	$0.00669
Vesting date (100%)	26 November 2010

Expected volatility has been determined by calculating the Group's share price over the periods 23 months.

Shares granted to key management personnel as share-based payments are as follows:

Grant Date	Number
26 November 2010	3,771,110

The weighted average fair value of those equity instruments, determined by reference to market price, was $0.008.

These shares were issued as compensation to key management of the Group. Further details are provided in the directors' report.

Included under employee benefits expense in the statement of comprehensive income is $30,169 which relates to equity-settled share-based payment transactions (2010: $Nil).

15. TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2011	2010	2011	2010
	$	$	$	$
Trade payables	154,842	102,511	-	-
Accruals and deferred income	63,624	109,822	8,278	14,797
Payroll liabilities	-	17,208	-	-
	218,466	229,541	8,278	14,797

Trade payables are non-interest bearing and are normally settled within 60-day terms. Other payables are non-interest bearing and have an average term of 6 months.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

16. PROVISIONS

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Provision for annual leave entitlements	9,080	13,371	-	-
	9,080	13,371	-	-

The movements in the provision were:

Opening balance	13,371	-	-	-
Additional provision in the year	16,025	26,308	-	-
Utilised during the year	(18,905)	(15,588)	-	-
Unused leave paid out on termination of employees	(1,411)	2,651	-	-
	9,080	13,371	-	-

17. ISSUED CAPITAL AND RESERVES

Ordinary Shares				
Issued and fully paid	31,617,416	30,794,209	31,617,416	30,794,209
Total issued and fully paid	**31,617,416**	**30,794,209**	**31,617,416**	**30,794,209**
	Shares in Issue (No.)	**$**		
Movement in ordinary shares in issue				
At 1 July 2009	**321,300,613**	**30,648,561**		
Issued on 27 August 2009 for cash	20,000	52		
Issued on 6 October 2009 for cash	500,000	1,400		
Issued on 22 October 2009 for cash	26,666	74		
Issued on 25 January 2010 for cash	18,588	52		
Issued on 7 May 2010 for cash	48,279,875	144,070		
At 30 June 2010	**370,145,742**	**30,794,209**		
Issued on 4 August 2010 for cash	51,246,302	256,232		
Issued on 4 August 2010 – share based payment	4,275,555	21,378		
Issued on 26 November – share based payment	3,771,110	18,856		
Issued on 5 January 2011 for cash	412,679	2,063		
Issued on 1 February 2011 for cash	6,000,000	30,000		
Issued on 15 March 2011 for cash	4,483,000	22,415		
Issued on 14 April 2011 for cash	94,452,784	472,263		
At 30 June 2011	**534,787,172**	**31,617,416**		

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $	PARENT 2011 $	PARENT 2010 $
Share Premium Reserve				
Share Premium Reserve	12,334,669	11,861,031	12,334,669	11,861,031

	Shares in Issue (No.)	$
Movement in ordinary shares in issue		
At 1 July 2009	321,300,613	11,670,488
Issued on 27 August 2009 for cash	20,000	248
Issued on 6 October 2009 for cash	500,000	6,100
Issued on 22 October 2009 for cash	26,666	326
Issued on 25 January 2010 for cash	18,588	227
Issued on 7 May 2010 for cash	48,279,875	256,665
Cost of Issues	-	(73,023)
At 30 June 2010	370,145,742	11,861,031
Issued on 4 August 2010 for cash	51,246,302	204,985
Issued on 4 August 2010 – share based payment	4,275,555	21,378
Issued on 26 November – share based payment	3,771,110	11,313
Issued on 5 January 2011 for cash	412,679	4,127
Issued on 1 February 2011 for cash	6,000,000	21,000
Issued on 15 March 2011 for cash	4,483,000	15,691
Issued on 14 April 2011 for cash	94,452,784	472,264
Cost of Issues	-	(277,120)
At 30 June 2011	534,787,172	12,334,669

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	CONSOLIDATED		**PARENT**	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Other Reserves				
Option Reserve	500,407	199,357	500,407	199,357
	Unlisted Options on Issue	***$***		
Movement in Option Reserve				
At 1 July 2009	15,250,000	199,357		
Expired 31 August 2009	(250,000)	-		
Expired 31 December 2009	(10,000,000)	-		
At 30 June 2010	5,000,000	199,357		
Outstanding unlisted options at 30 June 2011	5,000,000	199,357		
Listed Options				
Outstanding listed options at 1 July 2010	113,887,066	-		
Granted during the year to 30 June 2011	194,974,641	301,050		
Exercise of listed options	(10,483,000)	-		
Expired 31 December 2010	(66,607,191)	-		
Outstanding listed options at 30 June 2011	231,771,516	500,407		
Exercisable at year end	**231,771,516**			

Nature and purpose of reserves

Share premium reserve
The share premium reserve is used to record increments in the value of share issues when the issue price per share is greater than the par value. Costs of the issues are written off against the reserve.

Option reserve
The option reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration, or to other parties in lieu of cash compensation.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the company

18. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

Financial Risk Management

Overview
The Company and Group have exposure to the following risks from their use of financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Foreign currency risk

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

The company and the group's principal financial instruments are cash, receivables and payables. The financial assets are categorised as loans and receivables and the financial liabilities are categorised as other financial liabilities measured at amortised cost.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the group uses.

Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. It is the Group's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances.

Cash and cash equivalents are exposed to foreign currency risk, cash balances earn a floating interest rate.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis for 2010.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

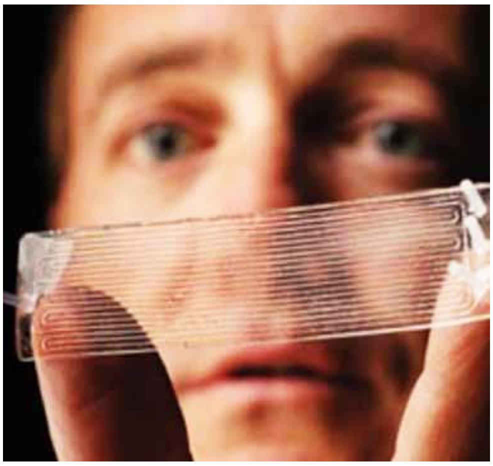
		Profit or loss		Equity	
Consolidated - 30 June 2011	Carrying Value at year end	100bp increase	100bp decrease	100bp increase	100bp decrease
	$	$	$	$	$
Cash and cash equivalents	590,543	5,905	(5,905)	5,905	(5,905)
Consolidated - 30 June 2010					
Cash and cash equivalents	179,705	1,797	(1,797)	1,797	(1,797)
		Profit or loss		Equity	
Parent - 30 June 2011	Carrying Value at year end	100bp increase	100bp decrease	100bp increase	100bp decrease
	$	$	$	$	$
Cash and cash equivalents	389	4	(4)	4	(4)
Parent - 30 June 2010					
Cash and cash equivalents	2,100	21	(21)	21	(21)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. This risk is minimised by reviewing term deposit accounts from time to time with approved banks of a sufficient credit rating which is AA and above. The company does not place funds on terms longer than 30 days and has the facility to place the deposit funds with more than one bank.



CVM™ Sensor as used across stressed or crack-prone sections of structures

CVM™ Laboratory Monitoring System

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated Carrying amount		Parent Carrying amount	
	2011	2010	2011	2010
	$	$	$	$
Cash and cash equivalents	590,543	179,705	389	2,100
Trade and other receivables	92,775	84,009	-	-
	683,318	263,714	389	2,100

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:	Consolidated Carrying amount		Parent Carrying amount	
	2011	2010	2011	2010
	$	$	$	$
Australia	17,729	24,669	-	-
Europe	11,454	7,410	-	-
USA	63,592	51,930	-	-
	92,775	84,009	-	-

Impairment Losses

Of the Company's receivables, $11,466 was past the Company's 30 day credit terms at 30 June 2011 (2010: $59,340). The aging of the Group's trade receivables at the reporting date was:

	Consolidated		Consolidated	
	Gross	Impairment	Gross	Impairment
	2011	2010	2011	2010
	$	$	$	$
Not past due	-	-	-	-
Past due 0-30 days	81,321	-	84,009	-
Past due 31-120 days	11,454	-	-	-
Past due 121 days to one year	-	-	-	-
More than one year	-	-	-	-
	92,775	-	84,009	-

There are no impairment losses at 30 June 2011 as the amounts have been received since year end or are within the standard credit terms imposed on the customers (2010: $Nil).

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The following are the contractual maturities of financial liabilities:

Consolidated - 30 June 2011	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	218,466	218,466	218,466
	218,466	218,466	218,466

Consolidated - 30 June 2010	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	229,541	229,541	229,541
	229,541	229,541	229,541

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.

Foreign Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings 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 EUR and the GBP. The currencies in which these transactions primarily are denominated are AUD, USD, GBP.

Exposure to Currency Risk

The Group's exposure to foreign currency risk at reporting date was as follows, based on notional amounts:

	30 June 2011				30 June 2010			
In AUD	AUD	GBP	EUR	USD	AUD	GBP	EUR	USD
Cash	225,343	389	-	386,615	91,526	2,100	-	86,079
Trade Receivables	92,775	-	-	-	24,669	-	7,410	51,820
Trade Payables	(218,466)	-	-	-	(229,541)	-	-	-
	99,652	389	-	386,615	(113,346)	2,100	7,410	137,899

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

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
In AUD	2011	2010	2011	2010
GBP	0.6208	0.5588	0.6614	0.5686
USD	0.9881	0.8821	1.0597	0.8567

Capital Risk Management

The Company and the Group's objectives when managing capital are to safeguard the Company and the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

maintain an optimal capital structure to reduce the cost of capital. The management of the Company and the Group's capital is performed by the Board.

Given the level of operations of the Group, the Board has not made use of long term debt financing, but has instead chosen to raise additional capital by issuing shares.

None of the Group's entities are subject to externally imposed capital requirements.

19. COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Group as lessee

The Group has entered into an operating lease on office equipment where it is not in the best interest of the Group to purchase these assets.

This lease has an average life of 5 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2011 are as follows:

	CONSOLIDATED		PARENT	
	2011 $	2010 $	2011 $	2010 $
Within one year	21,720	131,454	-	-
After one year but not more than five years	14,091	50,986	-	-
	35,361	182,440	-	-

20. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Structural Monitoring Systems Plc and the subsidiaries listed in the following table.

	Country of incorporation	% Equity interest		Investment ($)	
		2011	2010	2011	2010
Structural Monitoring Systems Ltd	Australia	100	100	-	-
Structural Health Monitoring Ltd	United Kingdom	100	100	-	-
Structural Monitoring Systems Inc	United States	100	100	-	-
				-	-

Structural Monitoring Systems Plc is the ultimate parent entity and is incorporated in the United Kingdom.

The UK and US subsidiaries are both dormant. The Australian subsidiary carries on the business of developing the Group's structural health monitoring technology.

This intercompany loan has been reclassified as an investment as at 30 June 2011 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cashflows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the loan is likely to be the nature of an investment. The investment has had an impairment charge applied to write the balance down to net asset of the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

At reporting date, the group has cash at bank amounted to $178,972 held in trust by Sonalta Capital, LLC., which Toby Chandler is a director of the company.

21. EVENTS AFTER THE BALANCE SHEET DATE

On 6 July 2011, the Company sent a letter to all shareholders who held 71,428 shares or less (representing $500 or less at a market price of 5 July 2011 of 0.7cents) to share the opportunity to participate in a sale facility (the "Voluntary Share Sale Facility"). Structural Monitoring Systems intended to sell the unmarketable parcels of shares held (being the holding of 71,428 shares or less). The Company dispatched a notice to holders of unmarketable parcels on 21 December 2010 however ASX Listing Rule 15.13 requires the constitution to contain the provisions specified in Listing Rule 15.13 or Listing Rule 15.13A. The articles of association of Structural Monitoring Systems Plc do not include such provisions and therefore the 21 December 2010 letter is not effective. However, the implementation of this Voluntary Share Sale Facility enabled holders of unmarketable parcels to voluntary sell their shares without brokerage and handling.

On 26th September 2011, the Company announced that it had signed a Memorandum of Understanding (MOU) with Romar Engineering ("Romar") regarding the manufacture of SMS products by Romar. Under the terms of the MOU, SMS will seek to outsource production to Romar Engineering of components used in all SMS products, including the PM200 diagnostic tool, Laboratory Kits, CVM switches, sensors and leads – in addition to the specialised connectors Romar is currently manufacturing for SMS.

22. AUDITORS' REMUNERATION

Details of the amounts paid to the auditor of the Company, RSM Tenon Audit Limited, and other auditors for audit and non-audit services provided during the year are set out below.

	CONSOLIDATED		**PARENT**	
	2011 $	**2010 $**	**2011 $**	**2010 $**
Amounts received or due and receivable RSM Tenon Limited for:				
an audit or review of the financial report of the entity and the Group	21,176	-	21,176	-
Other auditors	-	32,690	-	32,690
Amounts received or due and receivable by RSM Bird Cameron Partners for:	-	-	-	-
an audit or review of the financial report of the principal trading subsidiary	30,000	-	-	-
Other auditors	-	36,082	-	19,289
other services in relation to the entity and any other entity in the consolidated entity				
Other auditors-tax compliance	5,250	4,862	3,000	4,862
	56,426	73,634	24,176	56,841

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

23. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

Richard Evans **Non-Executive Director - Appointed 20 October 2010**
Toby Chandler **Director/Head of Business Development and Finance - Appointed 2 May 2011**
Sam Wright **Non Executive Director/Company Secretary**

(ii) Specified executives

Nil

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors of Structural Monitoring Systems Plc is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and senior executives' emoluments to the company's financial and operational performance. Executive directors and employees have the opportunity to qualify for participation in the Employee Share Option Plan.

It is the Remuneration Committee's policy that employment agreements shall be entered into with the Managing Director and all other executives. The current employment agreement is consistent for all executives. The agreement has a 3 month notice period and provides for payment of an amount of three months salary at the end of the three month notice period. Any options held lapse when the service period is completed.

CVM™ technology is being evaluated on the McDonald-Douglas/Boeing F-15 Eagle

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(ii) Remuneration of Specified Directors and Specified Executives

	Primary	**Post Employment**	**Other**	**Other**	**Total**
30 June 2011	**Salary & Fees**	**Superannuation**	**Social Security**	**Shares**	
Specific Directors	**$**	**$**	**$**	**$**	**$**
Mark Vellacott	91,667	8,250	-	-	99,917
Sam Wright	69,167	8,475	-	20,000	97,642
Andrew Caminschi	32,500	2,363	-	-	34,863
Robin Dean	12,500	1,875	-	8,888	23,263
Toby Chandler	20,000	-	-	-	20,000
Richard Evans	19,166	-	-	-	19,166
Malcolm Richmond	6,250	844	-	1,281	8,375
Total Specified Directors	251,250	21,807	-	30,169	303,226
Specific Executives					
Colin McDonald	45,069	4,056	-	-	49,125
Total Specified Executives	45,069	4,056	-	-	49,125
Grand Total	**296,319**	**25,863**	**-**	**30,169**	**352,251**

	Primary	**Post Employment**	**Other**	**Equity**	**Total**
30 June 2010	**Salary & Fees**	**Superannuation**	**Social Security**	**Shares**	
Specific Directors	**$**	**$**	**$**	**$**	**$**
Mark Vellacott	275,000	24,750	-	-	299,750
Robin Dean	39,583	3,563	-	-	43,146
Malcolm Richmond	25,000	2,250	-	-	27,250
Sir John Walker	11,482	-	531	-	12,013
Sam Wright	8,333	750	-	-	9,083
Total Specified Directors	359,398	31,313	531	-	391,242
Specific Executives					
Colin McDonald	172,000	15,480	-	-	187,480
Total Specified Executives	172,000	15,480	-	-	187,480
Grand Total	**531,398**	**46,793**	**531**	**-**	**578,722**

(c) Remuneration options: Granted and vested during the year

No options were granted as equity compensation benefits under the employee share option plan (ESOP) during the financial year.

(d) No shares were issued on exercise of remuneration options

None.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(e) Option holdings of specified directors and specified executives

	Balance at beg of period 01-Jul-10	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30-Jun-11
Specified Directors					
Mr Mark Vellacott*	5,000,000	-	-	(5,000,000)	-
Mr Sam Wright	-	-	-	833,334	833,334
Mr Richard Evans	-	-	-	3,703,704	3,703,704
	5,000,000	-	-	462,962	4,537,038

*The Options granted to Mr Vellacott expired on his resignation on 31 October 2010.

	Balance at beg of period 01-Jul-09	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30-Jun-10
Specified Directors					
Mr Mark Vellacott	5,250,000	-	-	(250,000)	5,000,000
	5,250,000	-	-	(250,000)	5,000,000

(f) Shareholdings of Specified Directors and Specified Executives

Shares held in Structural Monitoring Systems Plc

	Balance at beg of period 01-Jul-10	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30-Jun-11
Specified Directors					
Mr Robin Dean*	4,807,267	833,334	-	(5,640,601)	-
Mr Mark Vellacott**	600,000	-	-	(600,000)	-
Prof Malcolm Richmond***	200,000	625,000	-	(825,000)	-
Mr Sam Wright^	-	2,500,000	-	1,500,000	4,000,000
Mr Toby Chandler^^	-	-	-	21,035,181	21,035,181
Mr Richard Evans^^^	-	-	-	3,703,704	3,703,704
Specified Executives					
Mr Colin McDonald****	52,000	-	-	(52,000)	-
Total	5,659,267	3,958,334	-	19,121,284	28,738,885

* Mr Robin Dean resigned on 26 November 2010, prior to his resignation Mr Dean was granted 833,334 shares in lieu of cash for services provided to the entity.
**Mr Vellacott resigned on 31 October 2010.
*** Prof. Richmond resigned on 10 November 2010, prior to this resignation Prof. Richmond was granted 625,000 shares in lieu of cash for services provided to the entity.
**** Mr McDonald Resigned on 2 September 2010.
^ Mr Wright acquired 2,500,000 shares in lieu of cash for services provided to the entity.
^^ Mr Toby Chandler was appointed to the board on 2 May 2011
^^^ Mr Richard Evans was appointed to the board on 20 October.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	Balance at beg of period 01-Jul-09	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30-Jun-10
Specified Directors					
Sir John Walker	100,000	-	-	(100,000)	-
Mr Robin Dean	4,807,267	-	-	-	4,807,267
Mr Mark Vellacott	600,000	-	-	-	600,000
Prof Malcolm Richmond	200,000	-	-	-	200,000
Mr Sam Wright	-	-	-	-	-
Specified Executives					
Mr Colin McDonald	52,000	-	-	-	52,000
Total	5,759,267	-	-	(100,000)	5,659,267

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Structural Monitoring Systems Plc, I state that:

In the opinion of the directors:

the financial statements and notes of the company and of the consolidated entity are in accordance with the Australian Corporations Act 2001, including:

giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

complying with International Financial Reporting Standards, Australian Corporations Regulations 2001 and UK Companies Act 2006; and

there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

the audited remuneration disclosures set out in Sections 13 and 14 of the Directors' Report, for the year ended 30 June 2011, comply with section 300A of the Australian Corporations Act 2001.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

On behalf of the Board

Sam Wright
Director
30 September 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

We have audited the financial statements of Structural Monitoring Systems plc for the year ended 30 June 2011 which comprise the group and parent statements of comprehensive income, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of changes in equity, the related notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year end or from time to time during the financial year. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the directors' responsibilities statement set out of page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. In addition, we read all the financial and non- financial information in the annual report to identify any material inconsistencies within audited financial statements. If we become aware of any apparent material inconsistencies or misstatements, we consider the implications in our report.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Independence
In conducting our audit, we have complied with the independence requirements of the Australian Corporations Act 2001.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2011 and of the group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2(b) to the financial statements concerning the company's and the group's ability to continue as a going concern. The group incurred a net loss of $1,253,182 during the year ended 30 June 2011. These conditions, along with the other matters explained in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's and the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and the group were unable to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC (cont'd)

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on other matters prescribed by the Australian Corporations Act 2001

Report on the remuneration report
We have audited the remuneration report included on pages 9 to 10 of the directors' report for the year ended 30 June 2011. The directors of Structural Monitoring Systems plc are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with International Standards on Auditing (UK and Ireland).

Auditors' opinion
In our opinion the remuneration report of Structural Monitoring Systems plc for the year ended 30 June 2010 complies with section 300A of the Corporations Act 2001.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Talbot (Senior statutory auditor)
for and on behalf of RSM Tenon Audit Limited, Statutory auditors

London, UK
30 September 2011

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 31 August 2011.

a) Distribution of CDI securities

Range of Units Snapshot			Composition : CDI
	Total holders	**Units**	**% of Issued Capital**
1 - 1,000	54	5,696	0.00
1,001 - 5,000	75	310,167	0.06
5,001 - 10,000	159	1,384,261	0.26
10,001 - 100,000	488	22,389,450	4.19
100,001 – 9,999,999,999	434	510,697,568	95.50
Rounding			**-0.01**
Total	**1,211**	**534,787,142**	**100.00**
Unmarketable parcels	**Minimum Parcel Size**	**Holders**	**Units**
Minimum $500.00 parcel at $0.0060 per unit	83,334	702	16,856,511

b) Distribution of options SMNOA

Range of Units Snapshot			Composition : OP2
	Total holders	**Units**	**% of Issued Capital**
1 - 1,000	0	0	0.00
1,001 - 5,000	0	0	0.00
5,001 - 10,000	0	0	0.00
10,001 - 100,000	33	1,700,000	1.19
100,001 – 9,999,999,999	43	141,618,731	98.81
Rounding			**0.00**
Total	**76**	**143,318,731**	**100.00**
Unmarketable parcels	**Minimum Parcel Size**	**Holders**	**Units**
Minimum $500.00 parcel at $0.0020 per unit	250,000	38	2,615,000

c) Distribution of options SMNOB

Range of Units Snapshot			
	Total holders	**Units**	**% of Issued Capital**
1 - 1,000	14	922	0.00
1,001 - 5,000	16	53,845	0.06
5,001 - 10,000	11	90,648	0.10
10,001 - 100,000	59	2,399,565	2.54
100,001 – 9,999,999,999	88	91,907,804	97.31
Rounding			**0.00**
Total	**188**	**94,452,784**	**100.00**
Unmarketable parcels	**Minimum Parcel Size**	**Holders**	**Units**
Minimum $500.00 parcel at $0.0020 per unit	250,000	126	6,952,202

ASX ADDITIONAL INFORMATION (cont'd)

c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Holder	Number of shares
Orbis Holdings Limited	56,349,177
Mac Equity Partners Pty ltd	41,860,837

Twenty largest CDI holders (ASX Code: SMN)

The names of the twenty largest holders of quoted CDI securities are:

	Holder	Number of shares	% of CDI Securities
1	MAC EQUITY PARTNERS PTY LTD	41,860,837	7.83
2	CITICORP NOMINEES PTY LIMITED	38,277,854	7.16
3	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	24,426,408	4.57
4	J P MORGAN NOMINEES AUSTRALIA LIMITED	17,628,670	3.30
5	NATIONAL NOMINEES LIMITED	16,593,345	3.10
6	NUMBER 7 INVESTMENTS PTY LTD	11,111,111	2.08
7	MR ROBERT GREGORY LOOBY	11,004,890	2.06
8	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	10,120,487	1.89
9	MR STEPHEN FORMAN	9,000,000	1.68
10	GEBA PTY LTD	8,984,142	1.68
11	LANDMARK CONSTRUCTION PTY LTD	7,700,000	1.44
12	MR DAVID MICHAEL BROWN	6,000,000	1.12
13	CLATWORTHY NOMINEES LTD	6,000,000	1.12
14	MR SIMON MARAIS	5,174,999	0.97
15	MS DIMITRA DAFALIA	5,000,000	0.93
16	WINTERSET INVESTMENTS PTY LTD	5,000,000	0.93
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,781,518	0.89
18	UNIVERSAL ACTION PTY LTD	4,700,000	0.88
19	CAFMAC PTY LTD	4,579,700	0.86
20	DENSLEY HOLDINGS PTY LTD	4,554,800	0.85
Totals: Top 20 holders of CHESS DEPOSITORY INTEREST (TOTAL)		**242,498,761**	**45.34**
Total Remaining Holders Balance		**292,288,381**	**54.66**

ASX ADDITIONAL INFORMATION (cont'd)

Twenty largest option holders (ASX Code: SMNOA)

The names of the twenty largest holders of quoted options are:

	Holder	Number of shares	% of CDI Securities
1	MAC EQUITY PARTNERS PTY LTD	47,786,070	33.34
2	GEBA PTY LTD	12,048,192	8.41
3	NUMBER 7 INVESTMENTS PTY LTD	11,111,111	7.75
4	MR PETER VASSILEFF	6,100,000	4.26
5	EXIT OUT PTY LTD	6,024,096	4.20
6	BILL BROOKS PTY LTD	5,555,555	3.88
7	OSTLE INTERNATIONAL PTY LTD	5,000,000	3.49
8	MR ROBERT GREGORY LOOBY	4,300,000	3.00
9	MR VINCENZO BRIZZI + MRS RITA LUCIA BRIZZI	4,207,875	2.94
10	FOLEY PTY LTD	3,500,000	2.44
11	GOFFACAN PTY LTD	3,500,000	2.44
12	RICHARD CHARLES EVANS	2,777,778	1.94
13	SILKTREE INVESTMENTS PTY LTD	2,500,000	1.74
14	522 INVESTMENTS PTY LTD	2,409,639	1.68
15	MR ANTHONY MASLIN + MS MARITE NORRIS	2,000,000	1.40
16	MEGATOP NOMINEES PTY LTD	2,000,000	1.40
17	RINGSFORD PTY LTD	2,000,000	1.40
18	AZALEA FAMILY HOLDINGS PTY LTD	1,500,000	1.05
19	DR JAMES GREENBURY + MRS CATHERINE ANN GREENBURY	1,250,444	0.87
20	MR GEOFFREY CARSBURG	1,250,000	0.87
Totals: Top 20 holders of LISTED OPTIONS EXPIRE 01/07/13 @ $0.0085		**126,820,760**	**88.49**
Total Remaining Holders Balance		**16,497,971**	**11.51**

ASX ADDITIONAL INFORMATION (cont'd)

Twenty largest option holders (ASX Code: SMNOB)

The names of the twenty largest holders of quoted options are:

	Holder	Number of shares	% of CDI Securities
1	CITICORP NOMINEES PTY LIMITED	9,494,463	10.05
2	MR STEPHEN FORMAN	9,000,000	9.53
3	MS DIMITRA DAFALIA	5,000,000	5.29
4	MAC EQUITY PARTNERS PTY LTD	5,000,000	5.29
5	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	4,800,006	5.08
6	J P MORGAN NOMINEES AUSTRALIA	4,407,167	4.67
7	NATIONAL NOMINEES LIMITED	4,148,336	4.39
8	CAFMAC PTY LTD	3,233,334	3.42
9	MR ROBERT GREGORY LOOBY	2,751,223	2.91
10	RBC DEXIA INVESTOR SERVICES	2,530,122	2.68
11	GREAT DAY HOLDINGS PTY LTD	2,400,000	2.54
12	AZALEA FAMILY HOLDINGS PTY LTD	2,333,334	2.47
13	MR VINCENZO BRIZZI	2,156,667	2.28
14	OSTLE INTERNATIONAL PTY LTD	2,000,000	2.12
15	UNIVERSAL ACTION PTY LTD	2,000,000	2.12
16	WINTERSET INVESTMENTS PTY LTD	1,498,000	1.59
17	MR GRANTLEY MARK FRASER	1,173,334	1.24
18	MR ALAN RAYMOND REED	1,085,334	1.15
19	MS SUZANNE MCMEEKIN	1,009,259	1.07
20	HOLTDALE PTY LIMITED	1,000,000	1.06
Totals: Top 20 holders of LISTED OPTIONS EXPIRE 31/03/13 @ $0.0085		**67,020,579**	**70.96**
Total Remaining Holders Balance		**27,432,205**	**29.04**

(d) Voting rights

All ordinary shares have attached a voting right of one vote per fully paid ordinary share. The same voting rights will be attached to ordinary shares that issue when options are exercised.

CORPORATE GOVERNANCE STATEMENT

Structural Monitoring Systems Plc (**"Company"**) has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (**"Principles and Recommendations"**), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

Further information about the Company's corporate governance practices including the relevant information on the Company's charters, code of conduct and other policies and procedures is set out on the Company's website at www.smsystems.com.au.

CORPORATE GOVERNANCE STATEMENT (cont'd)

Recommendation	ASX P&R (1)	If not, why not (2)
Recommendation 1.1 Functions of the Board and Management	×	
Recommendation 1.2 Evaluation of Senior Executives	×	
Recommendation 1.3 Reporting on Principle 1	×	
Recommendation 2.1 Independent Directors	×	
Recommendation 2.2 Independent Chairman	×	
Recommendation 2.3 Role of the Chairman and CEO	×	
Recommendation 2.4 Establishment of Nomination Committee	×	
Recommendation 2.5 Evaluation of Board	×	
Recommendation 2.6 Reporting on Principle 2	×	
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	×	
Recommendation 3.2 Company Security Trading Policy	×	
Recommendation 3.3 Reporting on Principle 3	×	
Recommendation 4.1 Establishment of Audit Committee	×	
Recommendation 4.2 Structure of Audit Committee	×	
Recommendation 4.3 Audit Committee Charter	×	
Recommendation 4.4 Reporting on Principle 4	×	
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	×	
Recommendation 5.2 Reporting on Principle 5	×	
Recommendation 6.1 Communications Strategy	×	
Recommendation 6.2 Reporting on Principle 6	×	
Recommendation 7.1 Policies on Risk Oversight and Management	×	
Recommendation 7.2 Implementation of Risk Management and Internal Control Systems	×	
Recommendation 7.3 Attestations by CEO and CFO		
Recommendation 7.4 Reporting on Principle 7		
Recommendation 8.1 Establishment of Remuneration Committee	×	
Recommendation 8.2 Executive and Non-Executive Director Remuneration	×	
Recommendation 8.3 Reporting on Principle 8	×	

(1) Indicates where the Company has followed the Principles and Recommendations

(2) Indicates where the Company has provided "if not, why not" disclosure.

NOMINATION MATTERS

The following list identifies those directors who are members of the Nomination Committee.

Name

Sam Wright (Chair)

Richard Evans

There were no meetings of the nomination committee.

CORPORATE GOVERNANCE STATEMENT (cont'd)

AUDIT MATTERS

The following list identifies those directors who are members of the Audit Committee.

Name	No of meetings attended
Robin Dean (Chair)	1
Sam Wright	1

Details of each director's qualifications are set out in the Director's Report.

Both current members of the Audit Committee have relevant qualification in financial and accounting experience.

REMUNERATION MATTERS

Remuneration Policy

Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms part of the Directors' Report and the Notes to the Financial Statements.

Remuneration Committee Function

Name	No of meetings attended
Sam Wright (Chair)	1
Richard Evans	1

OTHER

Skills, Experience, Expertise and term of office of each Director

A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report. There is no set term of office for any Director.

Assurances to the Board

The Board has required management to implement and maintain risk management and internal control systems to manage the Company's materials business risks. (A summary of the Company's policy on risk oversight is available on the Company's website, a summary of the Company's risk management of material business risks is provided below.) The board also requires management to report to it confirming that those risks are being managed effectively. Further the Board has received an assurance from management that the Company's management of its material business risks are effective.

Also the Chief Executive Officer and the Chief Financial Officer have provided a declaration in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk.

Summary of Company's System & Processes on the management of material risks:

The Company has included a summary of its risk management policy, and its systems and processes for managing material business risks on its website at www.smsystems.com.au.

Identification of Independent Directors and the Company's Materiality Thresholds

CORPORATE GOVERNANCE STATEMENT (cont'd)

In considering the independence of directors, the Board refers to its *Policy on Assessing the Independence of Directors* (available on the Company's website).

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's *Board Charter* (available on the Company's website):

- Balance sheet items are material if they have a value of more than 5% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 5% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 5% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 5%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The directors of the Company are all considered to be independent.

Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's Policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

Confirmed. The Board Performance Evaluation Policy is available at www.smsystems.com.au in the Corporate Governance Statement.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

SMS's involvement in the Airbus A380 program is ongoing with CVM™ being used in the full-scale testing of the A380.

STRUCTURAL
MONITORING
SYSTEMS

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