



**STRUCTURAL**  
**MONITORING**  
S Y S T E M S  
plc

**STRUCTURAL MONITORING SYSTEMS PLC**

**HALF-YEAR FINANCIAL REPORT**

**31 DECEMBER 2018**

For personal use only

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## **CORPORATE DIRECTORY**

### **Directors**

Michael Reveley  
Executive Director

William Rouse  
Executive Director

Terry Walsh  
Non-Executive Director

**Chief Executive Officer**  
Toby Chandler

**Company Secretary**  
Sam Wright

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### **Statutory Auditors**

RSM UK Audit LLP  
25 Farringdon Street, London EC4A 4AB  
United Kingdom

### **Stock Exchange Listing**

Australian Securities Exchange  
Home Exchange: Perth, Western Australia

### **ASX Code**

Shares (CDI's) SMN

## **Important Notices**

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 acquisitions of shares (including substantial holdings and takeovers).

# Structural Monitoring Systems PLC

## Directors' Report

The Directors submit their report for the half-year ended 31 December 2018.

### DIRECTORS

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

- Michael Reveley            Executive Director
- William Rouse             Executive Director
- Terry Walsh                Non-Executive Director

### REVIEW OF OPERATIONS

Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX: SMN) is pleased to provide a review of operations for the half-year period.

#### Key Programme Overview

##### *Delta Engineering*

SMS and Delta Engineering (DE), a Panasonic Company, have entered into an MOU to define the commercial relationship between SMS and DE in relation to the installation and approval of CVM™ sensors for large radome installations for "WiFi systems" on commercial aircraft. Delta Engineering is not affiliated with Delta Airlines. Delta Engineering holds the Supplemental Type Certificates ("STC") controlling the installation and inspection protocols for many of the current WiFi systems, primarily the 2K and 2KU systems. Delta Engineering and SMS will seek approvals from the FAA for new STC's for multiple aircraft types which will explicitly designate CVM™ as an alternative method of inspection for the WiFi radome on aircraft. SMS is targeting the first installations on aircraft as early as Q3/Q4 of this year.

Delta Air Lines has led the industry by adopting the new generation 2KU radome system across a major part of the Delta Air Lines fleet. With assistance from Delta Engineering, SMS is finalising the design of a CVM™ Kit for B737NG 900 series aircraft. SMS and Delta Engineering will use this design, as well as previously completed POADTE-SHM data packages, to seek FAA approval for the initial STC. Overall, the incumbent inspection protocols place a very large burden on operators given the frequency of the mandated inspection, the complexity of the maintenance tasks required and the distinct possibility that the aircraft is held out of service for an additional day due to a myriad of unforeseen delays in the inspection. SMS is highly encouraged that multiple operators are now focused on these applications given the sheer number of aircraft affected and the ability of CVM™ to materially reduce inspection duration and aircraft downtime. We look forward to working with Delta Engineering Organization Designation Authorization (ODA) to obtain FAA approval of the STC, and then proceeding quickly toward global industry adoption of CVM™ as a sole mandated, commercial solution.

**Boeing 737-NG Aft Pressure Bulkhead ("APB") Application** – As previously released in relation to the B737-NG APB programme, multiple operators are now engaged with respect to this high-impact application – one that has resonated with many key global 737-NG fleet operators. This application is a time-consuming and "out-of-cycle" inspection, with a short inspection interval once the initial inspection cycle threshold is met. The ability to use CVM™ sensors to directly eliminate the critical in-hangar downtime, coupled with a short repeat inspection interval cycle, represents a very attractive business case for all B737-NG operators with affected aircraft.

## Structural Monitoring Systems PLC

### Directors' Report (cont'd)

#### REVIEW OF OPERATIONS (CONT'D)

SMS engineers have now completed the design work for the APB CVM™ Kits. In anticipation of pending 2019 installations, SMS has already begun manufacturing multiple, complete APB CVM™ Kits. Additionally, following a detailed review of both unfinished and finished goods inventory levels, SMS has ordered significant volumes of key materials (used for sensor production) and key components from the Company's third-party, direct source suppliers. SMS is working with multiple airlines to determine the demand and installation timetable for the APB application, both in relation to potential pre-, and post- OEM approval. Initial analysis, utilizing proprietary industry software showing global fleet utilization, indicates that 1,500 aircraft over the next 3-4 years will be impacted by the Service Bulletins affecting the APB.

SMS continues the work diligently with the OEM and Delta Airlines to approve CVM™ as an alternative means of inspection in 2019, including several follow up meetings and conference calls with key senior management since the last shareholder update. Given the significant importance of the B737-NG aircraft globally and the number of operators now approaching the cycle threshold that trigger the required mandatory, multi-day inspection, we believe all parties are aligned to review, develop and formally approve a CVM™ solution. The Company will provide shareholders further updates in the near term on both the process and timetable for approval as definitive progress warrants additional disclosure.

***In-Flight Wireless Entertainment System*** – This inspection is typically completed overnight in the maintenance hangar, and is a significant burden for operators given the frequency of the mandated inspection, the complexity of the maintenance tasks required and the distinct possibility that the aircraft is held out of service for an additional day due to a myriad of unforeseen delays in the inspection, hangar access and re-sequencing issues etc.

With assistance from Delta Air Lines, SMS is finalising the design of a complete CVM™ Kit for the B737-900 aircraft. While this is an important and definitive first step, SMS is also directing design work to commence for multiple aircraft including the B737-700, B737-800, B757, A319, A320 and A321 in Q1/Q2 2019.

**B757 CVM™ Kit Installs** - SMS and Delta Tech Ops have scheduled the first of three installations of the 757 CVM™ Kits beginning in March at the Flightstar MRO facility in Jacksonville, Florida. As previously released, Delta had prioritized two key B757 applications for expedited approval from Boeing. SMS built and placed into inventory a limited number of CVM™ Kits for these applications anticipating the commencement of the programme. Delta and SMS are still awaiting further guidance from Boeing with regards to a potential new Service Bulletin and a possible modification to the airframe before making a commercial decision with respect to CVM™ installations on Delta's 757 fleet in H2-2019. Prior to receiving that guidance from Boeing, SMS will install three CVM™ Kits in order to initiate the programme – ahead of a fleet-wide “green light” - as there are numerous offsetting ancillary benefits received from installing CVM™ Kits on-board aircraft. Further, these installs provide valuable training to another large MRO facility (Flightstar) for the future CVM™ programmes. SMS and Delta personnel will provide the technical oversight to the Flightstar staff for the first installation, and subsequently Flightstar personnel, with oversight from Delta Tech Ops only.

## Structural Monitoring Systems PLC

### Directors' Report (cont'd)

#### Operating Results

The Group incurred an after-tax loss for the half-year ended 31 December 2018 of \$1,889,700 (2017: \$2,759,572), a reduction of 32% on the prior period. The loss was attributable to the funding of commercialisation of CVM™ technology, pursuing the Delta programme and the costs associated with operating an ASX listed company in Australia. The loss was also attributable to a share-based payment expense incurred on the grant of shares and Performance Rights to directors, employees and a consultant.

Following the acquisition of Anodyne Electronics Manufacturing Corp (AEM) in December 2017 the half-year to 31 December 2018 included, for the first time, a full period of results from AEM. The Group recorded a gross profit of \$2,531,853 (2017: \$110,289). The Group also recorded revenues of \$7,113,515 (2017: \$455,423), an increase of 1,462% on the prior period. Other key expenses during the period were consumables and raw materials used of \$4,581,662 (2017: \$345,134) and employee expenses of \$1,524,151 (2017: \$nil). The movements were due to the inclusion of a full period of results for AEM in the half-year.

During the half-year the Company granted shares and Performance Rights to directors, employees and a consultant. The share-based payment expense recognised for the half-year was \$1,078,535 (2017: \$1,507,185). Full details of the share-based payments are disclosed in Note 6: Share-based payments in the notes to the condensed consolidated financial statements.

At the reporting date the Group had net assets of \$12,805,826 (30 June 2018: \$13,477,443). The reduction in net assets was attributable to the operating loss incurred by the Group for the reporting period.

As at 31 December 2018, the Group held cash at bank of approximately \$2.46m (30 June 2018: \$3.39m).

#### Annual General Meeting

SMS held its Annual General Meeting of Shareholders at Piccadilly Tower, Level 7, 133 Castlereagh Street, Sydney on 11 December 2018 at 12.00pm ADST. All resolutions that were put were unanimously passed on a show of hands.

#### SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance date 1,829,136 unlisted options with an exercise price of \$2.25 remained unexercised and have lapsed.

Other than the above from the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

Signed in accordance with a resolution of the Directors.



Michael Reveley  
Executive Director  
Perth, Western Australia  
28 February 2019

**Structural Monitoring Systems PLC**  
**Condensed Consolidated Statement of Comprehensive Income**  
**For the Half-Year Ended 31 December 2018**

		<b>6 months to 31 Dec 2018 (unaudited)</b>	<b>6 months to 31 Dec 2017 (unaudited)</b>
	Note	\$	\$
<b>Continuing operations</b>			
Revenue	5	7,113,515	455,423
Cost of sales		<u>(4,581,662)</u>	<u>(345,134)</u>
Gross profit		2,531,853	110,289
Other income		-	144,383
Depreciation and amortisation		(314,665)	(19,690)
Administrative and corporate expenses		(938,722)	(1,439,172)
Employee expense		(1,524,151)	-
Occupancy expenses		(28,143)	(2,883)
Research and development expenses		(222,006)	(37,952)
Sales and marketing		(373,226)	-
Share-based payments	6	<u>(1,078,535)</u>	<u>(1,507,185)</u>
<b>Loss from continuing operations before income tax and finance costs</b>		(1,947,595)	(2,752,210)
Finance income		3,822	219
Finance costs		-	(492)
Foreign currency translations		<u>86,841</u>	<u>(38,986)</u>
<b>Loss before income tax (benefit)/expense</b>		(1,856,932)	(2,791,469)
Income tax (benefit)/expense		<u>(32,768)</u>	<u>31,897</u>
<b>Net loss attributable to members of Structural Monitoring Systems Plc</b>		(1,889,700)	(2,759,572)
<b>Other comprehensive expense</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>139,548</u>	<u>(173,277)</u>
Other comprehensive expense		<u>139,548</u>	<u>(173,277)</u>
<b>Total comprehensive (loss) for the period</b>		<u>(1,750,152)</u>	<u>(2,932,849)</u>
Basic and diluted loss per share (cents per share)	7	(1.65)	(2.62)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**Structural Monitoring Systems PLC**  
**Condensed Consolidated Statement of Financial Position**  
**As at 31 December 2018**

		<b>As at 31 December 2018 (Unaudited)</b>	<b>As at 30 June 2018 (Audited)</b>
	Note	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,463,329	3,390,236
Trade receivables		2,459,943	2,867,156
Inventory	8	5,236,578	4,709,788
Other current assets	9	438,714	285,371
<b>Total current assets</b>		<u>10,598,564</u>	<u>11,252,551</u>
<b>Non-current assets</b>			
Plant & equipment		535,067	536,830
Intangible assets and goodwill	10	3,717,051	3,853,276
Deferred tax		-	107,061
<b>Total Non-current assets</b>		<u>4,252,118</u>	<u>4,497,167</u>
<b>Total assets</b>		<u>14,850,682</u>	<u>15,749,718</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	1,582,179	1,462,776
Borrowings		-	139,646
Provisions		-	133,045
<b>Total current liabilities</b>		<u>1,582,179</u>	<u>1,735,467</u>
<b>Non-current liabilities</b>			
Deferred tax		462,677	536,808
<b>Total non-current liabilities</b>		<u>462,677</u>	<u>536,808</u>
<b>Total liabilities</b>		<u>2,044,856</u>	<u>2,272,275</u>
<b>NET ASSETS</b>		<u>12,805,826</u>	<u>13,477,443</u>
<b>Equity</b>			
Issued capital	12	31,928,765	31,926,515
Share premium reserve	13	34,919,253	34,919,253
Other reserves	13	(1,208,409)	(1,894,742)
Accumulated losses		(52,833,783)	(51,473,583)
<b>TOTAL EQUITY ATTRIBUTABLE TO MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC</b>		<u>12,805,826</u>	<u>13,477,443</u>

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

**Structural Monitoring Systems PLC**  
**Condensed Consolidated Statement of Cash Flows**  
**For the Half-Year Ended 31 December 2018**

	6 months to 31 Dec 2018 (Unaudited)	6 months to 31 Dec 2017 (Unaudited)
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	7,559,104	721,208
Payments to suppliers and employees	(8,021,160)	(1,617,290)
Income taxes paid	(137,144)	-
Interest income	3,822	219
Interest expense	-	(492)
<b>Net cash flows used in operating activities</b>	<u>(595,378)</u>	<u>(896,355)</u>
<b>Cash flows from investing activities</b>		
Payments for plant and equipment	(104,351)	-
Net cash paid on acquisition of subsidiary	-	(10,353,560)
<b>Net cash flows used in investing activities</b>	<u>(104,351)</u>	<u>(10,353,560)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	13,000,000
Costs of issue	-	(201,625)
<b>Net cash flows from financing activities</b>	<u>-</u>	<u>12,798,375</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(699,729)	1,548,460
Cash and cash equivalents at beginning of period	3,250,590	2,943,623
Effect of foreign exchange on balances	(87,535)	2,630
<b>Cash and cash equivalents at end of period</b>	<u>2,463,326</u>	<u>4,494,713</u>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## Structural Monitoring Systems PLC

### Condensed Consolidated Statement of Changes in Equity attributable to members of Structural Monitoring Systems PLC

For the Half-Year Ended 31 December 2018

Consolidated (unaudited)	Issued Capital \$	Accumulated Losses \$	Share Premium Reserve \$	Share-Based Payment Reserve \$	Foreign Exchange Reserve \$	Total Equity \$
<b>At 1 July 2017</b>	31,867,455	(49,033,286)	22,069,759	-	(2,271,001)	2,632,927
Loss for the period	-	(2,759,572)	-	-	-	(2,759,572)
Other comprehensive income/(expense)	-	-	-	-	(173,277)	(173,277)
<b>Total comprehensive loss for the period</b>	-	(2,759,572)	-	-	(173,277)	(2,932,849)
<b>Transaction with owners in their capacity as owners:</b>						
Issue of shares and performance rights	5,906	1,161,600	387,896	3,680	-	1,559,082
Grant of shares and performance rights	-	-	-	382,782	-	382,782
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(501,625)	-	-	(501,625)
<b>At 31 December 2017</b>	31,925,361	(50,631,258)	34,904,030	386,462	(2,444,278)	14,140,317
<b>At 1 July 2018</b>	31,926,515	(51,473,583)	34,919,253	512,996	(2,407,738)	13,477,443
Loss for the period	-	(1,889,700)	-	-	-	(1,889,700)
Other comprehensive income/(expense)	-	-	-	-	139,548	139,548
<b>Total comprehensive loss for the period</b>	-	(1,889,700)	-	-	139,548	(1,750,152)
<b>Transaction with owners in their capacity as owners:</b>						
Share-based payment - shares	2,250	529,500	-	-	-	531,750
Share-based payment – Performance Rights	-	-	-	546,785	-	546,785
<b>At 31 December 2018</b>	31,928,765	(52,833,783)	34,919,253	1,059,781	(2,268,190)	12,805,826

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 1. GENERAL INFORMATION

Structural Monitoring Systems Plc is a public company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose shares are publicly traded on the Australian Securities Exchange. The address of the registered office is 4 Elwick Road, Ashford, Kent TN23 1PF, United Kingdom.

The interim financial report of the Company as at and for the six months ended 31 December 2018 comprises the condensed consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group"). The Group's principal activity 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.

These condensed consolidated financial statements are presented in Australian Dollars (AUD) because the Group operates in international markets and the AUD\$ provides the most comparable currency for the peer companies.

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union. The accounting policies are consistent with those set out and applied in the statutory accounts of the Group for the period ended 30th June 2018, which were prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated interim financial report is intended to provide users with an update on the latest annual financial statement of Structural Monitoring Systems PLC and its controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this interim financial report to be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018, together with any public announcements made during the following half-year.

The interim financial information for the period from 1 July 2018 to 31 December 2018 is unaudited. In the opinion of the Directors the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The financial information incorporates comparative figures for the unaudited interim period from 1 July 2017 to 31 December 2017 and audited as at 30 June 2018.

The financial information contained in this interim report does not constitute statutory accounts as defined by section 434 of the Companies Act 2006.

The comparatives as at 30 June 2018 have been extracted from the Group's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

The interim financial report was authorised for issue in accordance with resolution of the directors on 28<sup>th</sup> February 2019.

The interim financial report has been prepared on an accruals basis under the historical cost convention.

The accounting policies have been consistently applied with those of the previous financial year and corresponding interim reporting period, with the exception of the first time adoption of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments" (both Standards effective for accounting periods beginning on or after 1 January 2018).

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 2. BASIS OF PREPARATION (CONT'D)

#### **IFRS 9 Financial Instruments**

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The classification of financial assets under IFRS 9 is based on whether the contractual cash flows of the instrument are solely payments of principal and interest, and whether the business model is to collect those contractual cash flows and/or sell the financial assets. The classification and measurement of financial assets under IFRS 9 is set out below.

All the company's financial assets were previously classified as loans and receivables under IAS 39 and are classified as assets at amortised cost under IFRS 9.

The only change in measurement of financial assets on application of IFRS 9 arises from impairment of financial assets. IFRS 9 requires impairments of financial assets to be assessed using an 'expected loss' model. The change from the 'incurred loss' model previously applied under IAS 39 has not resulted in a material change to carrying value of financial assets at 30 June 2018. On this basis there has been no restatement of comparative figures for the year ended 30 June 2018 or to equity at 1 July 2018.

The application of IFRS 9 has not changed the measurement of the company's financial liabilities or the company's accounting policies for the recognition or derecognition of financial instruments.

The new accounting policies under IFRS 9 are disclosed below. The accounting policies under IAS 39 applied in the previous period are available in the 30 June 2018 annual report.

#### *Impairment of financial assets*

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered or both.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

#### *Trade receivables*

For trade receivables, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 2. BASIS OF PREPARATION (CONT'D)

#### **IFRS 15 Revenue from Contracts with Customers**

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 July 2018. This has replaced existing revenue recognition standard IAS 18 *Revenue*.

Following a review and an impact assessment of this standard it was concluded that the Group's revenue streams are currently recognised at the point that its performance obligation is satisfied and at a determined transaction price and therefore, under IFRS 15, there was no material change in the amount and timing of its revenue recognition.

The Group's customer contracts have warranty arrangements within them, however these are to provide assurance that the Group's products comply with agreed-upon specifications and, as such, should be accounted for in accordance with IAS 37. No provision has been made for warranty costs on the basis that the history of returns is immaterial.

The new accounting policies under IFRS 15 are disclosed below. The accounting policies under IAS 18 applied in the previous period are available in the 30 June 2018 annual report.

#### **Revenue recognition – Repair services**

Repairs meet the definition of a distinct service whereby the associated revenue is to be recognized at a point in time, evidenced by the completion of the agreed upon service and delivery of the repaired parts/components to the customer. Revenue is recognized at a point in time i.e. when control passes. Pricing is fixed and determinable pursuant to agreed upon pricing lists that establish stand-alone selling prices.

#### **Revenue recognition – Product sales (stock or customised parts)**

Product sales meet the definition of a distinct service whereby the associated revenue is to be recognised at a point in time, evidenced by the delivery of the products to the customer. Revenue is recognized at a point in time i.e. when control passes

The Group recognises revenue on shipping for stock parts, customized product and customer product. When the Group provides a service (prototyping) it generally recognizes revenue when the prototype is shipped or as the service is provided if there is no item to be shipped. The Group recognises revenue when it satisfies its performance obligation under the contract (when the Group ships the product which is also when the customer obtains control over the product or service).

## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

#### 2. BASIS OF PREPARATION (CONT'D)

The Group's revenue recognition accounting policy is consistent with the requirement for recognition under IFRS 15 and no adjustments are required.

##### IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and represents them in the statement of cash flows applying them in IAS 7 *Statement of Cash Flows*. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases.

The Group will adopt this standard from 1 July 2019. The impact of its adoption is estimated to be as follows:

	2020	2021	2022
Consolidated	\$	\$	\$
Reduction in operating lease expense	(374,891)	(384,787)	(320,358)
Increase in interest expense	44,894	26,773	8,704
Increase in depreciation expense	42,606	42,606	42,606

##### Significant accounting estimates

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the consolidated financial statements the significant estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2018.

## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

#### 2. BASIS OF PREPARATION (CONT'D)

##### Going Concern

The condensed consolidated financial statements have been prepared on a 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 condensed consolidated financial statements, the Group incurred a loss after tax of \$1,889,700 and had net cash outflows from operating activities of \$595,378 for the half-year ended 31 December 2018.

The Directors believe that it is reasonably foreseeable that the Group will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of these condensed consolidated financial statements after consideration of the following factors:

- The Company's ability to issue additional shares to raise capital in accordance with the Companies Act 2006 and;
- Further commercial exploitation of the company's technologies and products at amounts sufficient to meet proposed expenditure commitments.

#### 3. SUBSEQUENT EVENTS

Subsequent to the reporting date 1,829,136 unlisted options with an exercise price of \$2.25 remained unexercised and have lapsed.

Other than the above from the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 4. OPERATING SEGMENTS

The Company has identified its operating segments based on the internal management reports that are reviewed and used by the board of directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group operates in one industry, being Structural Health Monitoring.

Management currently identifies the Group's geographical positions as its operating segments. These segments are monitored by the Group's Management and strategic decisions are made on the basis of adjusted segment operating results.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The operations of the Group are not influenced by seasonal or cyclical factors.

	Australia	US/Canada	UK	Total
	\$	\$	\$	\$
<b>Half-year ended 31 December 2017</b>				
<b>Revenue</b>				
Revenue from contracts with customers	-	455,423	-	455,423
Segment revenue	-	455,423	-	455,423
<b>Sales revenue by customer location:</b>				
Americas	-	455,423	-	455,423
Total revenue	-	455,423	-	455,423
<b>Result</b>				
Segment result				
Other revenue	-	144,383	-	144,383
Unallocated expenses	-	-	-	-
Loss before tax	(927,158)	(1,717,970)	(146,341)	(2,791,469)
Income tax benefit	-	31,897	-	31,897
(Loss) for the period	(927,158)	(1,686,073)	(146,341)	(2,759,572)
<b>Assets and liabilities</b>				
Segment assets	4,436,320	11,461,197	30,000	15,927,517
Segment liabilities	377,106	1,398,882	11,212	1,787,200
Included within segment results:				
Depreciation	-	(19,690)	-	(19,690)
Financial income	219	-	-	219
Financial expense	-	(492)	-	(492)

**Structural Monitoring Systems PLC**  
**Notes to the Half-Year Condensed Consolidated Financial Statements**

31 December 2018

**4. OPERATING SEGMENTS (CONT'D)**

	Australia	US/Canada	UK	Total
	\$	\$	\$	\$
<b>Half-year ended 31 December 2018</b>				
<b>Revenue</b>				
Revenue from contracts with customers	95,119	7,018,396	-	7,113,515
Segment revenue	95,119	7,018,396	-	7,113,515
<b>Sales revenue by customer location:</b>				
North America	95,119	6,887,668	-	6,982,787
Rest of world	-	130,728	-	130,728
Total revenue	95,119	7,018,396	-	7,113,515
<b>Result</b>				
Segment result				
Other revenue	-	-	-	-
Unallocated expenses	-	-	-	-
Loss before tax	(625,227)	307,252	(1,538,957)	(1,856,932)
Income tax expense	-	(32,768)	-	(32,768)
Profit/(Loss) for the period	(625,227)	274,484	(1,538,957)	(1,889,700)
<b>Assets and liabilities</b>				
Segment assets	2,242,412	12,468,901	139,369	14,850,682
Segment liabilities	444,472	1,495,525	104,859	2,044,856
Included within segment results:				
Depreciation and amortisation	(95)	(314,570)	-	(314,665)
Financial income	3,822	-	-	3,822
Financial expense	-	-	-	-

Segment revenues represent revenue generated from external customers. There were inter-segment revenues of \$124,612 in the current period.

Expenses incurred in the UK relate to central overhead costs.

## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

#### 5. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group derives its revenue from the sale of goods and the provision of services at a point in time in the following major geographical segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 (see note 4).

<b>Revenue from contracts with customers by customer location:</b>	<b>6 months to 31 December 2018</b>	<b>6 months to 31 December 2017</b>
	<b>\$</b>	<b>\$</b>
North America	6,982,787	455,423
Rest of world	130,728	-
Total revenue	<u>7,113,515</u>	<u>455,423</u>

There were no impairment losses on receivables in the statement of profit or loss for the six months ended 31 December 2018.

<b>Revenue from contracts with customers by customer location:</b>	<b>North America</b>	<b>Rest of world</b>
	<b>\$</b>	<b>\$</b>
Segment revenue	7,107,399	130,728
Eliminations	(124,612)	-
Total revenue from contracts with customers	<u>6,982,787</u>	<u>130,728</u>

#### 6. SHARE-BASED PAYMENT EXPENSE

	<b>6 months to 31 December 2018</b>	<b>6 months to 31 December 2017</b>
	<b>\$</b>	<b>\$</b>
Performance Rights to Directors and Executive	496,352	914,385
Performance Rights to Employee	50,433	-
Shares to Director	57,000	146,900
Shares to Employees	360,750	254,800
Shares to Consultant	114,000	191,100
	<u><b>1,078,535</b></u>	<u><b>1,507,185</b></u>

*Performance Rights – Directors and Executive*

On 7 August 2018 shareholders approved the issue of 150,000 Performance Rights (PRs) to Terry Walsh (Director) under the Company Employee Incentive Plan (EIP).

All Director PRs are subject to continued services with the Company and vest based on the attainment of share price barriers within 3 years of the issue date.

## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

#### 6. SHARE-BASED PAYMENT EXPENSE (CONT'D)

The following Director PRs were granted during the period:

Director	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Total
T Walsh	25,000	25,000	25,000	25,000	25,000	25,000	150,000
Fair value at grant date (\$)	0.903	0.789	0.692	0.650	0.611	0.575	
Expense recognised in current period (\$)	\$3,003	\$2,624	\$2,302	\$2,162	\$2,032	\$1,912	\$14,035

The inputs to the valuation of Director PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier (\$)	2.00	2.50	3.00	3.25	3.50	3.75
Grant date	7-Aug-18	7-Aug-18	7-Aug-18	7-Aug-18	7-Aug-18	7-Aug-18
Performance period (years)	3	3	3	3	3	3
Volatility (%)	65	65	65	65	65	65
Risk free rate (%)	2.10	2.10	2.10	2.10	2.10	2.10
Dividend yield	-	-	-	-	-	-

The expense recognised during the current period on PRs granted in prior periods to Directors was \$256,594.

The expense recognised during the current period on PRs granted in prior periods to the CEO was \$225,723.

#### Performance Rights – Employee

On 15 April 2018 The Board granted the issue of the following PRs to an employee under the EIP. The PRs were previously estimated to have a \$nil value as they were subject to a service condition which, it was estimated, would not be satisfied. The service condition was subsequently satisfied in the current period and the value measured as at the grant date has been recognised as an expense in the current period.

Employee	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Total
Totals	50,000	50,000	50,000	50,000	50,000	50,000	300,000
Fair value at grant date (\$)	0.975	0.868	0.776	0.735	0.696	0.661	
Expense recognised in current period (\$)	\$10,438	\$9,292	\$8,307	\$7,869	\$7,451	\$7,076	\$50,433

## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

#### 6. SHARE-BASED PAYMENT EXPENSE (CONT'D)

The inputs to the valuation of Employee PRs were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier (\$)	2.00	2.50	3.00	3.25	3.50	3.75
Grant date	15-Apr-18	15-Apr-18	15-Apr-18	15-Apr-18	15-Apr-18	15-Apr-18
Performance period (years)	3	3	3	3	3	3
Volatility (%)	65	65	65	65	65	65
Risk free rate (%)	2.18	2.18	2.18	2.18	2.18	2.10
Dividend yield	-	-	-	-	-	-

All Employee PRs are subject to continued service with the Company and vest based on the attainment of share price barriers within 3 years of the issue date.

An up and in single share price barrier option pricing model was used in the valuations of performance rights issued during the period.

##### *Shares - Director*

On 7 August 2018 shareholders approved the issue of 50,000 shares to Terry Walsh.

The expense recognised in the current period is \$57,000. The total fair value was determined by the share price on the grant date.

##### *Shares - Employees*

On 15 April 2018 and 15 August 2018 the Board granted the issue of 150,000 shares and 150,000 shares, respectively, to employees under the Company Employee Incentive Plan.

The expense recognised in the current period was \$360,750. The total fair value was determined by the share price on the grant date.

##### *Shares - Consultant*

On 7 August 2018 shareholders approved the issue of 100,000 shares to Andrew Chilcott (former Director) under the Company Employee Incentive Plan.

The expense recognised in the current period was \$114,000. The total fair value was determined by the share price on the grant date.

## Structural Monitoring Systems PLC

### Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

#### 6. SHARE-BASED PAYMENT EXPENSE (CONT'D)

##### *Performance shares - Octus Aerospace*

On 7 August 2018 shareholders approved the issue of 5,000,000 performance shares to Octus Aerospace Solutions LLC as follows:

Number	Vesting Condition
1,500,000	Performance shares will automatically convert into the same number of ordinary shares 6 months following the execution of the First Licensing Agreement with a Nominated Airline.
750,000	Performance shares will automatically convert into the same number of ordinary shares 6 months following the execution of each Additional Licensing Agreement with a different Nominated Airline (up to 4 Additional Licensing Agreements).
500,000	Performance shares will automatically convert into the same number of ordinary shares 6 months following the execution of 5 <sup>th</sup> Additional Licensing Agreement with a different Nominated Airline.

Each Licensing Agreement must be executed within five years of the Commencement Date of the Introducer Agreement and must follow or be materially connected to an Introductory Meeting which must be arranged within two years of the Commencement Date.

No share-based payment expense has been recognised in relation to the performance shares issued during the period. The related share-based payment expense will be recognised at the point the service is rendered by the engaged consultant, being the date an Introductory Meeting is arranged.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 7. LOSS PER SHARE

#### Basic loss per share

The basic and diluted loss per share for the half-year ended 31 December 2018 is 1.65 cents per share (2017: 2.62 cents per share).

#### Earnings

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 performance rights or options on issue which would be potential ordinary shares having a dilutive effect. The number of options at 31 December 2018 was 1,829,082 (2017: 1,829,082) and the number of performance rights at 31 December 2018 was 3,075,000 (2017: 2,625,000). These were excluded from the dilutive earnings per share calculation on the basis these options and performance rights would reduce loss per share and are therefore considered to be anti-dilutive.

	<b>6 months to 31 December 2018</b>	<b>6 months to 31 December 2017</b>
	<b>\$</b>	<b>\$</b>
Net loss attributable to equity holders from continuing operations	(1,889,700)	(2,759,572)
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for basic loss per share	114,736,145	105,225,930
Weighted average number of ordinary shares for diluted loss per share	114,736,145	105,225,930

### 8 INVENTORY

	<b>As at 31 December 2018</b>	<b>As at 30 June 2018</b>
	<b>\$</b>	<b>\$</b>
Raw materials	3,307,203	2,874,974
Work in progress	769,821	719,761
Finished goods	1,237,533	1,161,108
Provision for obsolescence	(77,979)	(46,055)
	<b>5,236,578</b>	<b>4,709,788</b>

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 9. OTHER CURRENT ASSETS

	As at 31 December 2018 \$	As at 30 June 2018 \$
Prepayments	312,896	185,249
Other receivables	19,589	4,624
GST receivable	23,531	87,741
Bank guarantee	66,166	-
Deposits	16,532	7,757
	<b>438,714</b>	<b>285,371</b>

### 10. INTANGIBLE ASSETS AND GOODWILL

	As at 31 December 2018 \$	As at 30 June 2018 \$
<i>Intangible assets</i>		
Licences – acquired through business combinations	2,691,926	2,691,926
Amortisation of licences	(393,414)	(192,972)
Foreign currency differences	9,676	(32,472)
	<b>2,308,188</b>	<b>2,466,482</b>
<i>Goodwill</i>		
Goodwill – acquired through business combinations	1,402,945	1,402,945
Foreign currency differences	5,918	(16,151)
	<b>1,408,863</b>	<b>1,386,794</b>
	<b>3,717,051</b>	<b>3,853,276</b>

### 11. TRADE AND OTHER PAYABLES

	As at 31 December 2018 \$	As at 30 June 2018 \$
Trade payables	649,716	479,105
Other payables	932,463	983,671
	<b>1,582,179</b>	<b>1,462,776</b>

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 12. ISSUED CAPITAL

	As at 31 December 2018 \$	As at 30 June 2018 \$
<b>Ordinary Shares</b>		
Issued and fully paid	31,928,765	31,926,515
	<i>Shares on Issue</i>	
	<i>(no.)</i>	\$
<i>Movement in ordinary shares in issue</i>		
At 30 June 2018	114,398,645	31,926,515
Issued to Director	50,000	250
Issued to Employees	300,000	1,500
Issued to Consultant	100,000	500
At 31 December 2018	114,848,645	31,928,765

### 13. RESERVES

	As at 31 December 2018 \$	As at 30 June 2018 \$
<b>Share Premium Reserve</b>		
Share Premium Reserve	34,919,253	34,919,253

	As at 31 Dec 2018 \$	As at 30 June 2018 \$
<b>Other Reserves</b>		
Share-based payment reserve	1,059,781	512,996
Foreign currency translation reserve	(2,268,190)	(2,407,738)
	(1,208,409)	(1,894,742)

	Unlisted Options on issue* No.	Performance rights on issue (PRs) No.	\$
<b>Share-based payment reserve</b>			
Outstanding at 30 June 2018	1,829,136	2,625,000	512,996
Grant of PRs – Director	-	150,000	14,035
Grant of PRs – Employee		300,000	50,433
Current period expense for PRs granted in prior period	-	-	482,317
Outstanding at 31 December 2018	1,829,136	3,075,000	1,059,781

For further details of PRs granted during the period, refer to Note 5: Share-based payments expense.

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 13. RESERVES (CONT'D)

#### 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. The par value of shares is GBP0.005 (2017: GBP0.005). Costs of the issues are written off against the reserve.

For share-based payments in the form of shares with no vesting conditions, any excess between the fair value and par value of the shares are recorded directly in accumulated losses.

##### *Share-based payment reserve*

The share-based payment reserve is used to record the value of share-based payments which represent unissued shares (ie. grants of options/performance rights/performance shares) and grants of shares that have not yet been issued.

##### *Foreign currency translation reserve*

The foreign currency translation reserve (FCTR) is used to record exchange differences arising from the translation of the financial statements of the Group from Canadian dollars to Australian dollars. The movement is recorded under other comprehensive income/(expense) in the statement of comprehensive income.

### 14. FINANCIAL RISK MANAGEMENT

#### a) 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.

#### b) Liquidity risk

The following are the contractual maturities of financial liabilities:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>
<b>31 December 2018</b>	\$	\$	
Trade and other payables	(1,582,179)	(1,582,179)	(1,582,179)
	<u>(1,582,179)</u>	<u>(1,582,179)</u>	<u>(1,582,179)</u>
<b>30 June 2018</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>
	\$	\$	
Trade and other payables	(1,462,776)	(1,462,776)	(1,462,776)
Borrowings	(139,646)	(139,646)	(139,646)
	<u>(1,602,422)</u>	<u>(1,602,422)</u>	<u>(1,602,422)</u>

# Structural Monitoring Systems PLC

## Notes to the Half-Year Condensed Consolidated Financial Statements

31 December 2018

### 14. FINANCIAL RISK MANAGEMENT

#### c) Foreign Currency Risk

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

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

### 15. COMMITMENTS AND CONTINGENCIES

Following the decision of the Supreme Court of Western Australia to not set aside the arbitral award made in January 2017 which determined that the Company was liable to Tulip Bay Pty Ltd for royalty payments, the Company recognised a liability in the amount of \$279,386 at 30 June 2018. During the current period the Company has recognised an additional liability of \$35,409 in interest charges. The order was made by the Court subsequent to the reporting date.

Subsequent to the reporting date Tulip Bay Pty Ltd has made a claim for a further \$617,845 in royalties. The Company has written to Tulip Bay seeking an explanation for its claim. At this stage there is no litigation underway regarding the claim. On this basis no provision has been recognised for this amount.

The commitments of the Group are as follows:

<b>Operating lease commitments</b>	<b>31 December 2018</b>	<b>30 June 2018</b>
	<b>\$</b>	<b>\$</b>
<i>Land and buildings</i>		
Within one year	391,041	303,530
Later than one year but not later than 5 years	1,183,073	611,518
	<u>1,574,114</u>	<u>915,048</u>

At the reporting date there are no other changes to commitments or contingent liabilities.

## Structural Monitoring Systems PLC

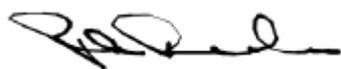
### Directors' Declaration

The Directors of Structural Monitoring Systems Plc declare that in the opinion of the Directors:

- (a) the attached condensed consolidated financial statements and notes of the Group:
  - (i) give a true and fair view of the financial position as at 31 December 2018 and the performance for the half-year ended on that date; and
  - (ii) comply with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Michael Reveley

Executive Director

Perth, Western Australia

28 February 2019

## INDEPENDENT REVIEW REPORT TO STRUCTURAL MONITORING SYSTEMS PLC

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2018 which comprises the condensed consolidated statement of comprehensive income for the half year ended on that date, the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity for the half year ended on that date and the related explanatory notes that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### **Directors' Responsibilities**

The half-yearly financial report, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing and presenting the half-yearly financial report in accordance with the rules of the Australian Stock Exchange.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union and the rules of the Australian Stock Exchange.

### **Use of our report**

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

*RSM UK Audit LLP*

### **RSM UK Audit LLP**

Chartered Accountants

25 Farringdon Street, London, EC4A 4AB

28 February 2019

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