



28 April 2006

The Listing Manager
Australian Stock Exchange Limited
Level 8, 2 The Esplanade
PERTH WA 6000

Dear Sir

APPENDIX 4C – THIRD QUARTER COMMITMENTS TEST ENTITY

Please find attached an Appendix 4C Quarterly Report for entities admitted on the basis of commitments for the quarter ended 31 March 2006.

The Company will be claiming funding under its Commercial Ready grant for eligible expenditure incurred since October 2005, and will receive approximately \$700,000 in grant funding during the next quarter. It received \$280,000 during the March quarter.

The following events occurred during the quarter and subsequently:

- South African company SAFAIR have provided a letter of intent stating that they intend to procure CVM systems for their 10 Hercules aircraft for an initial period of 10 years. The value of this program has yet to be agreed, however, it will be based on a split of the benefit that will be confidently be predicted from the use of the CVM system on a 'per aircraft per month' basis. Their first SAFAIR Hercules will be installed with CVM sensors in July 2006.
- The various qualification program activities are continuing apace, and significant results have been achieved under the Boeing and Airbus programs. As a part of their contribution to the Joint Development Agreement program, Airbus are progressing the installation of CVM systems on Airbus aircraft being operated in their flight test fleet and by a European airline.
- Planning activities are in progress with Embraer of Brazil regarding the development and qualification of an in-flight CVM system for their aircraft. Embraer manufacture regional and business aircraft, and are the fourth largest aircraft manufacturer in the world.

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ARBN 106 307 322

A public limited liability company incorporated under the laws of England and Wales.

- The first prototype PM-200 passed its first real test and been successfully used in the probability of detection trials that are being conducted by the Australian Defence Science and Technology Organisation in Melbourne. During the next quarter the PM-200 will under go a series of demonstration compliance tests, and is planned to be available for low rate initial production during the second half of 2006
- A new simplified CVM test instrumentation module and high volume sensor design have been developed for PBR for the monitoring of braking system fatigue tests. An initial order for 40 of these modules and sample set of sensors has recently been received. This is an important development as it is a non aviation application and the system developed for PBR will have broad application in the quality control testing across a broad range of manufacturing industries.
- Two of the four programs of work being conducted for the Pakistan Air Force have been completed. The two remaining programs are currently pending the outcome of a major life extension study for the FT-5 jet trainer, and an engineering assessment of C-130 transport aircraft wings being conducted by Lockheed Martin A major outcome of the first phase of the FT-5 ASIMP program was the development of a supplemental life extension program for major structural elements of the airframe. Given the scope of this significant program of work, SMS agreed to assign commercial responsibility to Aerostructures for a commission. A contract for this program has recently been executed, and the final stage of the existing contract with SMS will be recommenced after this study has been concluded.

Shareholders will shortly receive an investor newsletter updating them on these and other recent developments.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Colin McDonald', is written over a light blue circular stamp.

Colin McDonald
Company Secretary

Appendix 4C

**Quarterly report
for entities admitted
on the basis of commitments**

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

Structural Monitoring Systems plc

ABN

106 307 322

Quarter ended ("current quarter")

31 March 2006

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (..9.... months) \$A'000 |
|---|----------------------------|---|
| 1.1 Receipts from customers | 181 | 724 |
| 1.2 Payments for | | |
| (a) staff costs | (670) | (2,004) |
| (b) advertising and marketing | (118) | (410) |
| (c) research and development | (59) | (184) |
| (d) leased assets | - | - |
| (e) other working capital | (298) | (1,301) |
| 1.3 Dividends received | | |
| 1.4 Interest and other items of a similar nature received | 41 | 127 |
| 1.5 Interest and other costs of finance paid | (3) | (10) |
| 1.6 Income taxes paid | | |
| 1.7 Other (provide details if material) Grant income | 280 | 280 |
| Net operating cash flows | (646) | (2,778) |

| | Current quarter \$A'000 | Year to date (.9.... months) \$A'000 |
|--|----------------------------|--|
| 1.8 Net operating cash flows (carried forward) | (646) | (2,778) |
| Cash flows related to investing activities | | |
| 1.9 Payment for acquisition of: | | |
| (a) businesses (item 5) | | |
| (b) equity investments | | |
| (c) intellectual property | | |
| (d) physical non-current assets | (11) | (100) |
| (e) other non-current assets | | |
| 1.10 Proceeds from disposal of: | | |
| (a) businesses (item 5) | | |
| (b) equity investments | | |
| (c) intellectual property | | |
| (d) physical non-current assets | | |
| (e) other non-current assets | | |
| 1.11 Loans to other entities | | |
| 1.12 Loans repaid by other entities | | |
| 1.13 Other (provide details if material) | | |
| | (11) | (100) |
| Net investing cash flows | | |
| 1.14 Total operating and investing cash flows | (657) | (2,878) |
| Cash flows related to financing activities | | |
| 1.15 Proceeds from issues of shares, options, etc. | - | 3,525 |
| 1.16 Proceeds from sale of forfeited shares | | |
| 1.17 Proceeds from borrowings | | |
| 1.18 Repayment of borrowings | | |
| 1.19 Dividends paid | | |
| 1.20 Other (provide details if material) | - | (79) |
| | - | 3,446 |
| Net financing cash flows | | |
| Net increase (decrease) in cash held | (657) | 568 |
| 1.21 Cash at beginning of quarter/year to date | 3,817 | 2,593 |
| 1.22 Exchange rate adjustments to item 1.20 | - | (1) |
| 1.23 Cash at end of quarter | 3,160 | 3,160 |

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | Current quarter \$A'000 |
|--|----------------------------|
| 1.24 Aggregate amount of payments to the parties included in item 1.2 | 91 |
| 1.25 Aggregate amount of loans to the parties included in item 1.11 | Nil |
| 1.26 <u>Explanation necessary for an understanding of the transactions</u> | |
| Please note that the payments to directors of the entity was overstated in the December 2005 quarterly report by \$25,000, that is, the figure disclosed should have been \$146,000 rather than \$171,000. | |

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | | |
| 3.2 Credit standby arrangements | | |

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 4.1 Cash on hand and at bank | 3,160 | 3,160 |
| 4.2 Deposits at call | | |
| 4.3 Bank overdraft | | |
| 4.4 Other (provide details) | | |
| Total: cash at end of quarter (item 1.23) | 3,160 | 3,160 |

Acquisitions and disposals of business entities

| | Acquisitions (Item 1.9(a)) | Disposals (Item 1.10(a)) |
|---|-------------------------------|-----------------------------|
| 5.1 Name of entity | | |
| 5.2 Place of incorporation or registration | | |
| 5.3 Consideration for acquisition or disposal | | |
| 5.4 Total net assets | | |
| 5.5 Nature of business | | |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  . Date:28 April 2006.....
(~~Director~~/Company secretary)

Print name:Colin McDonald.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.