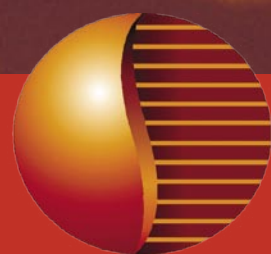


Structural Monitoring Systems

Investor Newsletter
September 2005



**STRUCTURAL
MONITORING
SYSTEMS**



Mark Vellacott M.Sc, MBA, FRAeS, C.Eng
Managing Director

MD's Report

Welcome to the third quarterly newsletter to investors.

SMS has continued to make significant progress since the issue of our second newsletter in June.

In August the Company signed a commercial licence agreement with The Boeing Company. The agreement establishes the commercial terms for CVM™ systems to be manufactured, certified, sold and distributed by the Company to the operators of Boeing commercial aircraft. The agreement also gives the Company access to certain Boeing proprietary information on the maintenance and servicing of Boeing commercial aircraft.

Following the execution of the agreement Boeing are now conducting a review of existing Service Bulletins and Airworthiness Directives to identify key applications for CVM™ sensors across the Boeing commercial aircraft fleets. The results of this review will be used to identify the key opportunities for the installation of CVM™ systems.

The Company has recently completed the first stage of the contract with the Pakistan Air Force to deliver a full range of structural integrity analysis, monitoring and testing services for their FT5 Trainer, Mirage Fighter and C-130 transport fleet of aircraft. As a result of outcomes from this first stage, we have submitted proposals to the PAF for additional activities to be conducted under this contract and for a further substantial program of work.

We have now installed CVM™ systems on UK Royal Navy Sea King and Royal Air Force Nimrod aircraft. The installation on the Nimrod is significant as it is intended that CVM™ will become the sole means of performing a critical structural integrity inspection.

Excellent progress has been made on the initial phase of work under the Joint Development Agreement between the Company and Airbus. During August CVM™ sensors were installed on the full scale airframe test of the A380 Jumbo aircraft in Germany.

Airbus has ordered additional CVM™ sensors for installation on fuselage and wing sections of the A380. In a new development for the Company CVM™ will be supplied for evaluation on the composite fibre sections of the A380 in Spain. To date all applications of CVM™ with Airbus have been on metal structure.

Orbis, a major institutional fund manager has taken a placement in the Company of \$2,500,000. Orbis is now a major investor in the Company.

An additional \$700,000 was placed with institutional investors. A Shareholder Purchase Plan has been implemented to ensure that all SMS shareholders have an opportunity to invest at the same share price as the above placements.



In this edition:

MD's Report

Boeing Licence

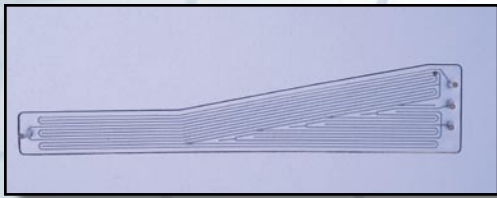
Airbus Testing

Pakistan Air Force

SMS In The Media

**Meet the Head of Operations,
Europe**

CVM™ On-Aircraft



Boeing Licence

The Company entered into a commercial licence agreement with The Boeing Company on the 8th August 2005.

The agreement establishes the commercial terms for CVM™ systems to be manufactured, certified, sold and distributed by the Company to the operators of Boeing commercial aircraft. The agreement also gives the Company access to certain Boeing proprietary information on the maintenance and servicing of Boeing commercial aircraft.

The agreement also establishes the terms under which Boeing will provide technical services and assistance to the SMS.

SMS is also involved with Boeing, the Federal Aviation Administration (FAA) and two US airline operators to have CVM™ technology qualified with the FAA. This evaluation is scheduled to be completed during the second half of 2006.

The significance of the program and the license agreement is that the CVM™ technology can be used to address structural inspection requirements in difficult, time consuming and costly access locations on Boeing commercial aircraft.

The use of CVM™ sensors for airframe inspections is desirable for aging commercial aircraft operators as it offers:

- Reduced labour costs of mandatory inspections
- Efficient and electronic reporting on airframe structural integrity
- Improved inspection reliability
- Removes invasive inspection damage risk and replacement material costs
- Reduced down time and ground support costs
- Optimised scheduling of all other maintenance
- Increase revenue or operational flight availability



Mark Vellacott with Boeing's Richard V. Thorgrimson

Importantly, a Boeing review of existing Service Bulletins and Airworthiness Directives will identify key applications for CVM™ sensors across its aging aircraft fleets. The results of this review will be used to identify the key opportunities for CVM™ installation products. The Company aims to have specifically designed CVM™ systems available for sale to Boeing customers by the time the program is completed in the second half of 2006.



AIRBUS TESTING

Airbus has been using CVM™ technology for four years in materials and structural test programs.

In recent months the Company delivered and assisted Airbus to install CVM™ sensors (both the surface and embedded type) together with a sophisticated real-time monitoring system on the full-scale structural testing program of the new A380 Jumbo aircraft in Dresden, Germany.

Airbus has now ordered additional CVM™ sensors and instrumentation for the rear fuselage section and the wing of the A380.

Significant revenue is being generated out of these Airbus programs.

The CVM™ system extensively covers important areas of the A380 structure during this important program and as such is a major endorsement of the capability and reliability of CVM™ technology by Airbus.

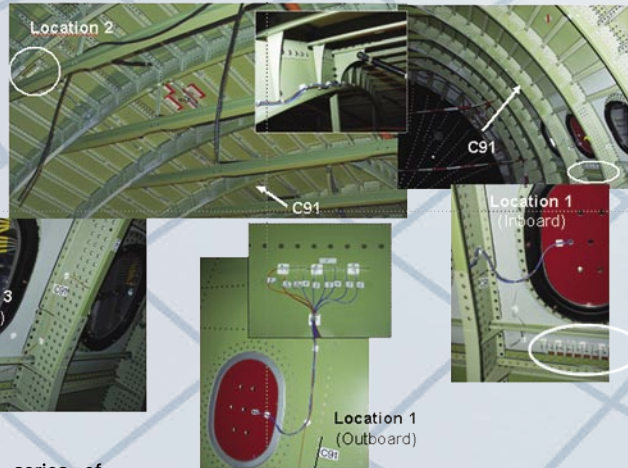
The SMS embedded (integral) sensor has become the standard within Airbus for the detection of crack initiation within metal lap joints and Airbus continue to order quantities of these sensors.

The Company has been conducting a series of development activities to demonstrate the benefits of using CVM™ technology for composite fibre structures. Aircraft manufacturers are increasing the use of composite fibre to reduce the weight of aircraft.

As a result of the success of this program, Airbus has recently asked the Company to provide CVM™ sensors and instrumentation to be applied to an experimental fuselage section made of composite material, called the Composite Tango Barrel.

This Tango Barrel is located and tested in Madrid, Spain and the installation and testing of CVM™ was due to occur before the end of October.

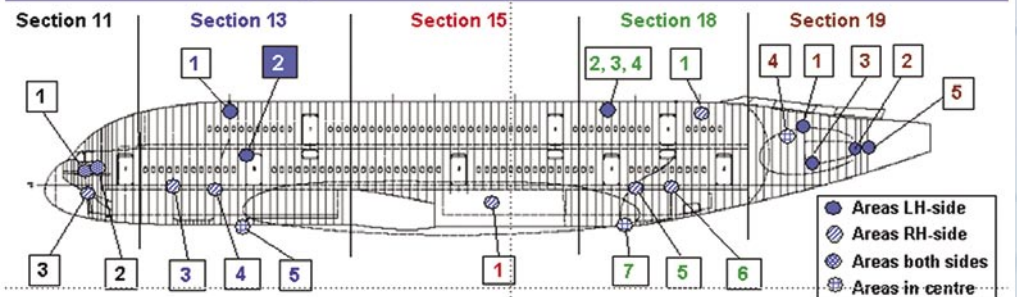
This is a similar Airbus development project to the Metal Tango Barrel in Hamburg, Germany, where CVM™ integral sensors, installed two and a half years ago, are still functional and used today after some 83,000 cycles, establishing the durability and strength of the CVM™ system. Surface sensors were also applied more recently to this barrel and successfully detected crack initiation in a welded joint.



Large composite structures, such as the wing and sections of the fuselage, will become more predominant with time and therefore the use of CVM™ technology to monitor composite structures for impact damage and delamination is a major new development for the Company, as it can create a wide range of additional applications over and above those that already exist in metal structures.

The objective now is for CVM™ technology to be applied to both metal and composite wings and fuselages, thereby covering the whole spectrum of materials that Airbus will use now and in the future.

CVM Surface Sensor Application Areas at A380 Full Scale Fatigue Test



PAKISTAN AIR FORCE



From left to right: PAF Squadron Leader Adil, Sq.Ldr L Rafique, Rob Koning (Aerostructures), Michael Houston (Aerostructures), Mike Lindroos (SMS), Mahboob Ali (SMS), Mike O'Grady (SMS), Tim Lancaster (SMS), Sergeant Najam, Sq.Ldr Mujahid.
In the background is a Mirage inside the Mirage Rebuild Factory PAC Kamra.



In our last newsletter we overviewed the contract (worth A\$830,000) that SMS was awarded by the Pakistan Air Force in May for the supply of engineering services and CVM™ design solutions for their FT5 jet trainers, Mirage-3 fighters and C-130 Hercules transport aircraft.

The first phase of this contract commenced in July with engineers from SMS attending the Pakistan Aeronautical Complex at Kamra about 100km north-west of Islamabad.

PAC is the main engineering centre for PAF aircraft, employing 6,000 people in a wide variety of maintenance and overhaul work on fighters and trainer aircraft.

PAC is also the home of the Aeronautical Research Centre, a recent addition by the PAF to provide a higher level of science and engineering to support the complex process of modifications and life extension programs for aging aircraft.

The ARC is effectively a collaborative partner to SMS to learn and incorporate know-how and technology to support the policy of national self reliance in

defence industries. A CVM™ system was handed over as part of the deliverables in the contract to assist ARC with the development of a structural testing facility.

The PAF operates the world's largest fleet of Mirage fighters, of which 50 are ex-RAAF aircraft. The Mirage is undergoing an Aircraft Structural Integrity Management Plan prepared by our associate Aerostructures using CVM™ applications.

The Company is also involved on the FT-5 jet trainer and a Mig-17 variant that the PAF wishes to keep operational for several more years. This airframe is likely to undergo an extensive process of forensic engineering study and analysis to determine structural modifications and the CVM™ monitoring required to ensure its continued airworthiness.

After being stationed at PAC Kamra for two weeks, the SMS team visited Chaklala Air Base, the head quarters of the PAF's C-130 Hercules fleet.

The Company is contracted to provide a structural management plan and to survey the C-130 airframe for a number of fatigue critical locations that are

difficult and time consuming to inspect. The C-130 is currently subject to a world-wide Important Service Bulletin requiring attention to the wings. This has a major potential for of the application CVM™ sensors which can economically satisfy the "safety by inspection" requirements.

During the three week in-country visit to Pakistan by the SMS team, the team was accommodated on-base, enjoying the excellent local food and a day trip into the foothills of Kashmir. The concluding meeting was held at Air Head Quarters, Islamabad, chaired by the Deputy Chief of Air Staff, Air Vice-Marshal Iftikhar Gul and the respective heads of engineering operations.

The next stage of activity with PAF is now under negotiation with a major emphasis on extending the structural life of the FT-5 jet trainer.

The Company is pleased with the level of cooperation and enthusiasm in the partnership with Pakistan and we are looking forward to a mutually rewarding relationship over many years.



Meet the Head of Operations, Europe

Air Commodore Alistair Lang MBE BA
CEng FRAeS FIMechE RAF (Retd)

Alistair is Head of Operations in Europe and is a genuine enthusiast of the Company's patented CVM™ technology.

"CVM™ has an important role to play in maintaining the structural integrity of aircraft and delivers significant benefits in reducing maintenance man-hours and increasing availability," he says.

Alistair knows the value of reducing maintenance time and the importance of aircraft availability.

He served as the engineer officer on several front-line squadrons including RAF Coningsby and in the Falkland Islands, and was the Station Commander at RAF St Athan, the maintenance facility for RAF and Royal Navy aircraft.

In his staff appointments he was responsible for the airworthiness and fleet management of various Fast Jets, including the Jaguar, Phantom, Harrier and Tornado.

Alistair did a tour at the Central Servicing Development Establishment as a Wing Commander, which included the RAF NDT Sqn, and was a Group Captain Member of the Ordnance Board. His last appointment was Air Commodore Logistics at HQ Strike Command.

He attended RAF College Cranwell, RAF Staff College and the Royal College of Defence Studies.

In his spare time, Alistair enjoys maintaining and flying his own aircraft, a Glasair II SRG. He also tries to find time for a round of golf.

Alistair Lang had a distinguished career as an engineer in the Royal Air Force before joining the Company in October 2003.

CVM™ On-Aircraft

An important component of the CVM™ validation and certification process involves on-aircraft environmental durability trials of the sensors and aircraft mounted system elements.

The first flying aircraft installation of CVM™ was in January 2002 on a NAVAIR Sikorsky Sea Stallion H-53 helicopter. The sensors were installed in advance of a pre-existing crack tip to monitor crack propagation. The CVM™ system detected crack growth on three occasions and the trial resulted in an endorsement by NAVAIR of CVM's ability to detect and monitor crack growth.

The Company has subsequently installed CVM™ sensors and system components on several military and commercial operator aircraft.

CVM™ sensors were installed on four RAAF P-3 Orion aircraft in September 2003 in locations subject to extremes of environmental durability, including in the air stream and turbulent airflow areas. The sensors have been monitored using the portable monitoring equipment approximately every three months to assess the durability and performance of the CVM™ systems. All CVM™ systems have performed to specification.

CVM™ sensors have also been installed on a Republic of Singapore Air Force A-4 Skyhawk and an Aermacchi S211 jet trainer aircraft based at Pearce Air Force Base in Western Australia to monitor for crack initiation. The sensors on the A-4 are located in the wheel well and are subjected to environmental extremes during take-off and landing. The S211 installation uses CVM™ sensors to monitor critical locations. On the S211 a reading of the CVM™ systems is performed every 150 flight hours.

More recently, sensors were installed on three Australian Army Black Hawk helicopters to assess the performance of CVM™ in monitoring cracking locations on an operational helicopter in regular use

The Company is working with the Directorate General Technical Airworthiness (DGTA) of the Australian Defence Force (ADF) for general endorsement of the CVM™ system

In the United Kingdom CVM™ sensors have been installed on two Sea King helicopters for the Royal Navy. A third aircraft will be fitted with sensors in the near future. This is a trial assessing the operation

and performance of CVM™ in a military environment and to evaluate the operational suitability of CVM™ for widespread use. In August 2005 CVM™ was installed on a Royal Air Force Nimrod MR2 aircraft to monitor propagation of an existing crack, this is a significant development as it is intended that the CVM™ will be the sole means of inspecting this critical structure

On the commercial airline front, CVM™ sensors have been installed on five Boeing aircraft from two US based operators and one Airbus aircraft as well as the major installation on the A380 fuselage in Dresden Germany.

CVM™ On-Aircraft Application Summary

Aircraft	First Installed	Status	Description
US Navy CH-53	Jan 02	Crack growth successfully monitored	United States Navy installation, crack growth to sensor location detected three times
RAAF P-3 Orion	Sep 03	On going	Environmental durability installation, completion of trials in November 2005. Five sensors on two aircraft still flying
RSAF A4-SU	Nov 03	100 hour Acceptance Certificate issued	Republic of Singapore Air Force, environmental durability installation
RSAF S211	Dec 03	On-going	Completed 450 hour inspection, monitoring continuing every 150 hours
Aust. Army Black Hawk	Apr 05	On-going	Technology environmental durability and logistics evaluation program
RN Sea King	Jun 05	On-going	Two aircraft installs completed, 3 rd due Sep 05
RAF Nimrod	Aug 05	On-going	Crack propagation monitoring program
Boeing NDI Standard Practices Manual	Feb 04	1 x DC-9	Comprehensive lab and on-wing program to include CVM™ as standard inspection method. On-wing environmental testing, installations in various locations, regular data recording.
	Apr 05	1 x 757	
Boeing DC-9	Jul 04	1 x 767	Aft wing spar fuel tank installation
		1 x DC-9	
Airbus JDA Retrofit	Apr 05	1 x A319	Laboratory and on-wing program to evaluate CVM as retrofit inspection solution as part of Airbus Joint Development Agreement (JDA)
Airbus A380 FSFT	Jul 05	3 year trial	A380 ground based fuselage Full Scale Fatigue Test (FSFT) in Dresden, Germany
Boeing MD-80	4th Qtr 2005	Laboratory trials underway	Main landing gear solution for Boeing MD-80, on-aircraft environmental durability trials to begin Q4 2005

The aim of the program with Boeing is to include CVM™ in Boeing's Non-Destructive Inspection (NDI) Standard Practices Manual so that the technology can be applied to Service Bulletin (SB) and Alternative Means of Compliance (AMOC) responses to Airworthiness Directives (AD) from the FAA. SMS is working with two additional US commercial aircraft operators to participate in aircraft durability trials. The Federal Aviation Administration (FAA) is funding a Probability of Detection (POD) exercise as part of this program.

Airbus Visit



Computer generated A380 in Qantas colours. Copyright Airbus

Australia may soon get its first visit from the new Airbus A380 "superjumbo" aircraft.

Qantas has ordered 12 of the new A380s and is known to be keen for one of the planes to visit Brisbane to mark the airline's 85th birthday on November 16th.

There's increased speculation Airbus may send the double-decker giant to Australia and Singapore during November as part of its ongoing promotional program.

It's understood the aircraft would stop in Singapore, Brisbane and Sydney before returning to Europe.

Sydney and Singapore will be among the first cities to welcome the aircraft in commercial service, with Singapore Airlines planning to start using the A380 on the "Kangaroo" route in late 2006.

SMS In The Media

SMS has received further media coverage in the last quarter. Copies of print articles can be found on the SMS website:

Flight International (14/06/05) - Airbus Signs Major Deal For SMS Crack Detector

Air Safety Week (18/07/2005) - Structural Monitoring Can Pinpoint Impending Failures

Channel Ten News (19/07/2005) - Airbus Deal & SMS Company Profile

The Australian (11/08/2005) - SMS Signs Commercial Licence Agreement With Boeing

The West Australian (11/08/2005) - SMS To Fly With Boeing

Transport Industry News (11/8/2005) - WA Aviation Company Signs With Boeing

Flight International (23/08/05) - SMS Strikes Monitoring Deal



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