



## Appendix 4C and Quarterly Update

### Highlights:

- AEM's platform performance continues to build and expand, with top line revenue totalling \$5.20m for the June quarter, up 20% on the previous quarter and up 43% on the year prior
- AEM forward orders for the September quarter continue the strong trend of the previous quarter at \$3.35 million
- Key appointment of experienced global executive Ross Love as Executive Chairman to oversee organisational transformation and change
- SMS visit to major US airline facility enabling the identification of structural inspections on B737 & A320 aircraft where CVM™ can deliver value
- SMS visit to the Airbus facility in France – resulting in a dedicated Airbus engineer assigned to the CVM™ sensor technology
- SMS continues to work with Boeing and Delta Air Lines in pursuing an approval for use of CVM™ sensors for the B737 Aft Pressure Bulkhead
- Meaningful reductions in expenditure at SMS board and executive management level
- Impending change of name and branding to reflect the changing, diversified nature of the business
- Preparation of an articulated commercialisation strategy to make SMS profitable

**Structural Monitoring Systems Plc (“SMS or “the Company”) (ASX: SMN)** is pleased to provide the following Quarterly Update, summarising Group performance and prior releases lodged during the quarter ending 30 June 2022.

### SMS Group – Summary of Financial Overview and Operational Highlights

Wholly owned subsidiary, Anodyne Electronics Manufacturing Corp (“AEM”) recorded another strong lift in revenue for the three months to June, up 20% on the previous quarter.

Revenue for the month of June was particularly strong, up 50% on the year prior. Figures for the June quarter were also strong overall, up 43% against the same period last year with sales for the month of June also up 9% against those for the previous month.

Revenue for the June quarter was up 20% on the previous quarter with annual revenue for FY2022 of \$16.21m, up 4% on the previous year amidst ongoing challenging external economic conditions.

The lift in revenue is due in part to the continued strong sales performance of audio sales following the acquisition of Eagle Audio, an ongoing lift in new product sales and the continued general level of solid activity alongside the ongoing recovery of the aviation sector more broadly.

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Normalised EBITDA for the quarter was \$0.64m (down 9% on the year prior) and sits at \$2.7m for the year, down 12% on the previous year. The reduced profit margin can be attributed to the global escalation in the price of raw materials, an increase in staff hires to meet increased demand and as a result of one-off staffing costs incurred during the 12 months to June 2022.

AEM's new premises are now fully operational with all production departments open and performing at capacity. Covid-19 continues to impact businesses globally, however air travel is now returning to pre-Covid levels and continuing to stabilise. Supply chain issues impacting many businesses globally continue to prove challenging and are causing the company to carry a higher than desired inventory of raw materials to mitigate potential ongoing supply issues across the board in the short to medium term.

Forward orders remain positive, in accordance with the momentum of the past two quarters, with orders on hand to 30 September currently sitting at \$3.35 million. The outlook for the new financial year is predicted to also be strong based on new product offerings coming on stream and on the back of a full year of audio product sales via Eagle Audio.

The Company sees the greatest opportunity in terms of increased revenue via the radio road map going forward as well as potential CVM™ solutions for Embraer, Boeing & Airbus. All are currently active.

The sale of Cobham Aerospace Connectivity, now rebranded as Canyon AeroConnect, is not expected to have a material impact on AEM sales forecasts with the focus firmly on growing high margin audio products and in going direct to customer rather than via an intermediary.

The main threats remain supply chain issues, cash flow and human resources challenges.

Note all figures above are unaudited per management accounts and stated in Australian dollars.

### **Update on activities following the March 2022 FAA Certification for CVM™:**

On 7th March 2022, SMS announced that the US Federal Aviation Administration (FAA) had granted Delta Engineering its authority to issue a Supplemental Type Certificate (STC) approval, for using CVM™ Sensor technology on the B737-800 Intelsat (Gogo) Wi-Fi antenna support structure inspection. This approval marked a milestone in aviation history, the first-ever in the world regulatory agency approved sensor technology validated and certified for detecting critical structural cracks on aircraft.

Although as previously announced to the public by Delta Air Lines, a corporate decision was made to switch Wi-Fi vendors from Intelsat (GoGo) to another supplier, the STC certification we received from the FAA remains valid (it validates CVM technology). As expected, the STC has led to communications with another airline regarding the feasibility of using the STC as a basis for certifying

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CVM™ for their Wi-Fi system antenna support structure as outlined below. As previously reported, the thoroughness of the original STC process and the availability of the FAA Issue Paper will make certification of authenticated use cases faster and more certain.

The STC certification from the FAA for CVM™ on the GoGo WiFi remains a viable application, the focus has shifted to working with Boeing and Delta Air Lines on the Aft Pressure Bulkhead application. The Aft Pressure Bulkhead was identified as one of the most ubiquitous as it is driven by a Service Bulletin on the most widely flown commercial aircraft, the 737. Our efforts with Boeing have been re engaged since the pandemic and activity in this regard is currently at the forefront of applications for the CVM™ solution. GoGo WiFi and derivatives will remain viable applications for the legacy systems applications. The certification process, working through the items in the issue paper, FAA familiarization and established relationships, has set up the basis for these next certifications to proceed quickly.

### **Post FAA Certification initiatives:**

SMS continues to work with Boeing and Delta Air Lines in pursuing an approval for use of CVM™ sensors for the B737 Aft Pressure Bulkhead inspection requirements. Boeing has released the coordination document, providing the details required for test plan requirements which SMS will adhere to. SMS will also build test coupons within 60 days and begin testing. Boeing will continue to work on the project specific Certification Plan in preparation to submit to the FAA.

The SMS Executive Vice President Business Development has reported positive developments with a new top five United States Airline following a recent successful site visit in the first week of July. The aim of this visit was to identify a number of structural inspections on each of its aircraft types where CVM™ may be able to deliver value to the airline. He was able to access several A320 aircraft at one of the airline's maintenance sites and a number of Boeing 737s at another to assist in the identification of those potential opportunities.

These inspections proved fruitful and resulted in the identification of a minimum of six different potential inspection areas on each aircraft type where CVM™ has the potential to be a useful tool to increase the airline's efficiency and reduce costs and time wastage.

The Company intends to further these positive discussions with the airline engineering team and the relevant OEM to determine if the identified applications can be authenticated for use of CVM™ with the intention of moving towards commercial sales in FY2023.

SMS has also re-engaged with Airbus engineering to advance the acceptance of CVM™ sensors for use on Airbus aircraft. SMS Engineering visited the Airbus facility in Toulouse, France, earlier this month with the outcome being that a dedicated engineer has been assigned to the CVM™ sensor technology. We believe strongly that the above discussions and progress will ultimately provide a

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successful commercial outcome for SMS in the short to medium term. The team is planning further site visits in the coming months to assist in the identification of additional inspection opportunities.

In relation to regional sales and marketing activity, AEM will attend APSCON (Airborne Public Safety Conference) in Reno, Nevada at the end of the month – a significant event and opportunity for the company to consolidate and grow and diversify its US customer base.

In terms of the European market, AEM attended AirMed 2022 – a Global Air Medical Conference in Salzburg, Austria in June. The company has previously had very little exposure to this market and has identified near term opportunities for its BAA01 and radio products within this sector. Further updates will be provided as they emerge.

The company is also looking to identify and pursue opportunities in the Japanese market with a potential business development trip to Japan to meet with key user groups earmarked for September 2022. The company is also working with several identified target customers in India with further progress and updates expected in calendar year 2023.

SMS engineering will also be presenting a paper at the joint meeting of the Forum of Non-Destructive Testing (NDT) SAE AISC-SHM committee meeting in September.

In a further initiative, the Lucerne University of Applied Sciences and Arts (HSLU) is working with SMS and a military partner to investigate the applicability of employing CVM™. HSLU have recently ordered custom designed CVM™ sensors and test equipment to conduct a Probability of Detection evaluation. SMS visited the research facility mid-May to assist with the evaluation setup.

### **Board and Organisational Changes:**

SMS was pleased to announce the appointment of internationally recognised senior executive, Ross Love, as the Company's new Executive Chairman on July 13, 2022.

Mr Love is an experienced global executive and consultant with extensive public and private sector expertise in policy reform and business strategy transformation and brings extensive airline industry focused experience to the role of SMS Executive Chair. As the former head of Boston Consulting Group's (BCG) New York business, Mr Love was responsible for overseeing BCG's global airline business and also contributed to multiple change programs at Qantas Airways including two years as a de facto member of then CEO, Geoff Dixon's Executive Management team, including the initial development and growth of its low-cost subsidiary, Jetstar.

On announcing his appointment, outgoing Chairman Bryant McClarty said that he and the rest of the board welcomed the decades of experience, leadership and high-level business acumen that he would bring to the role.

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Mr Love will lead the board and company to ensure it is able to capitalise on its significant commercial potential, drive profitability and realise the true value of its commercial offering.

Mr Love said he looked forward to meeting the challenges of the role and to leading the board and company at such a crucial time in its history. On the announcement of his appointment, he said he saw significant potential for the growth of the company both within the global aviation sector and other targeted sectors more broadly.

His appointment continues to support the board's high-level policy of ensuring there are adequate experienced aerospace, manufacturing, financial and governance representatives on the SMS board to enable the company to progress its ongoing commercialisation of CVM™ via integration with AEM's existing sales, marketing and management infrastructure.

Led by Mr Love, the board will continue to focus on achieving meaningful reductions in expenditure at board and executive level, a realistic and achievable program to drive sales of CVM™ in FY2023 and a consolidated and directions-based roadmap to ensure the ongoing, sustainable profitability of SMS.

Mr Love is currently chair of the Water Corporation of Western Australia, Chair of the Fremantle Port Authority and director of Tellus Group Holdings and is a member of the Westport Steering Committee.

Mr Love's appointment follows the elevation of AEM CEO, Brian Wall, to the board to further facilitate the ongoing integration of the operation and sales of CVM™ under the AEM umbrella. The board has also accepted the resignation of board members, Will Rouse, Toby Chandler and Stephen Foreman, all of whom have indicated an ongoing willingness to assist SMS with its future efforts.

AEM's current staff numbers sit at 112, with the average tenure of staff being 7.1 years with a voluntary turnover of 2.7% for the year, an impressive figure in an economy heavily weighted to employees rather than employers.

The recent appointment of a Chief Financial Officer in July 2022 is expected to further bolster AEM's management expertise and skills capacity.

The board now believes that they, and the current AEM executive team, possess the necessary skills and expertise to guide the company's ongoing and future growth in an effective and timely manner.

### **Response to Requisition announcement July 25, 2022**

On July 25, 2022, the Company announced that it had received a request from Drake Private Investments LLC (Drake Private), for the Company to call a meeting of shareholders pursuant to section 168 of the Companies Act 2006 (UK) (Requisition).

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It is the board's view that, at this time, the requisition is disruptive to the strategy and positive new direction of the company as the incoming Executive Chairman seeks to accelerate the commercialisation of its CVM™ technology to the benefit of all shareholders.

The Company is open to reasonable discussion and is making every effort to listen to the concerns of all shareholders and to act in both the shareholders and Company's best interests. The Executive Chairman is in active and productive conversations with Drake Private in relation to their expectations of, and support for, the commercialisation plan.

The Company is receiving ongoing legal advice in relation to the Requisition and will act in accordance with that advice and relevant legislation.

### **Appendix 4C Details:**

SMS's cash-at-bank as at 30 June 2022 was \$1.262m with total available funding for future operating activities of \$1.945m.

The Company raised the sum of \$4.92 million via an Entitlement issue in April to assist with the ongoing commercialisation of CVM™, to repay loans from Directors and provide additional working capital. Following completion of the entitlement issue, SMS accumulated expenses for the December 2021 and March 2022 quarters were cleared resulting in a significant operating outflow for the Company. Director loans were also repaid.

Payments for Product Manufacturing and Operating Costs of \$3.55m represent wholly owned subsidiary AEM's expenditure allocated to manufacturing and operating.

Payments for Staff Costs of \$1.86m represent salaries for manufacturing, administration, sales and general management activities as well as a one off severance payment.

Payments for Administration and Corporate Costs of \$0.89m represent general costs associated with running the Company, including ASX fees, legal fees, audit, etc.

The aggregate amount of payments to related parties and their associates included in the March quarter cash flows from operating activities was \$0.365m in respect of accrued fees paid to directors. As stated above, the Group cash balance as at June 30 2022 amounted to \$1.262m. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

***This ASX release has been approved for release by Ross Love on behalf of the Board of Directors.***

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## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

#### Name of entity

Structural Monitoring Systems Plc

#### ARBN

106 307 322

#### Quarter ended ("current quarter")

30 June 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	4,941	15,234
1.2 Payments for		
(a) research and development	(26)	(217)
(b) product manufacturing and operating costs	(3,553)	(10,426)
(c) advertising and marketing	(251)	(420)
(d) leased assets	-	-
(e) staff costs	(1,863)	(5,091)
(f) administration and corporate costs	(893)	(1,898)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(182)	(336)
1.6 Income taxes received/(paid)	81	(21)
1.7 Government grants and tax incentives	-	1,063
1.8 Other (royalty fee)	-	(629)
<b>1.9 Net cash from operating activities</b>	<b>(1,746)</b>	<b>(2,741)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses <sup>(1)</sup>	-	(4,521)
(c) property, plant and equipment	(1,003)	(3,220)
(d) investments	-	-
(e) intellectual property <sup>(2)</sup>	(206)	(954)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (release of bank guarantee)	-	66
<b>2.6</b>	<b>Net cash used in investing activities</b>	<b>(1,209)</b>	<b>(8,629)</b>

(1) Acquisition of Eagle Audio, Canada, as announced 2 September 2021.

(2) Capitalised R&D expenditure

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	4,669	4,669
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(187)	(201)
3.5	Proceeds from borrowings	1,109	7,656
3.6	Repayment of borrowings	(1,264)	(1,264)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (repayments of ROU leases)	(191)	(585)
<b>3.10</b>	<b>Net cash from financing activities</b>	<b>4,136</b>	<b>10,275</b>

<b>4.</b>	<b>Net increase in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	77	2,381
4.2	Net cash used in operating activities (item 1.9 above)	(1,746)	(2,741)
4.3	Net cash used in investing activities (item 2.6 above)	(1,209)	(8,629)
4.4	Net cash from financing activities (item 3.10 above)	4,136	10,275

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	4	(24)
4.6	<b>Cash and cash equivalents at end of period</b>	<b>1,262</b>	<b>1,262</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,803	309
5.2	Call deposits	-	-
5.3	Bank overdrafts	(541)	(232)
5.4	Other	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,262</b>	<b>77</b>

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	365
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	5,627	5,359
7.3i	-	-
7.3ii	3,145	2,730
<b>7.4 Total financing facilities</b>	<b>8,772</b>	<b>8,089</b>
<b>7.5 Unused financing facilities available at quarter end</b>		<b>683</b>
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	
	<p>HSBC operating loan facility of C\$5million, (increased from C\$3million during the year to date) secured at 4.70% variable, no maturity date</p> <p>HSBC equipment lease facility of US\$2.2million (increased from US\$1.5million during the year, secured at 3.45% fixed, with a term of between 3-5 years according to the type of equipment financed.</p> <p>A loan of US\$800,000 was received during the year from then Director, Stephen Forman and placed on deposit with HSBC as collateral for an operating loan facility. The unsecured loan was for a term of up to 1 year at an interest rate of 6% per annum. The loan was repaid from the proceeds of an entitlement issue during the quarter.</p> <p>Loans of \$92,936 and \$100,000 were received during the March quarter from Directors, Will Rouse and Bryant McLarty respectively. The unsecured loans were used for working capital with a term of up to 1 year and an interest rate of 5%. The loans were repaid from the proceeds of an entitlement issue during the quarter.</p>	

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	(1,746)
8.2	1,262
8.3	683
8.4	1,945
<b>8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	<b>1.11</b>
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?
	<p>Answer: No. June quarter operating cashflow included outgoings of approximately \$450K in payment of corporate and admin costs in arrears plus an additional \$180K relating to a severance payment. SMS Canadian subsidiary, AEM is forecast to generate increasing positive operating cashflows and SMS admin and corporate costs will stabilise over the next 2 quarters.</p>

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Funding alternatives are being evaluated. Should the need for additional working capital arise the market will be updated accordingly at the appropriate time.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. The manufacturing operation in Canada is profitable and generating positive cashflow from operating activities. Corporate and admin costs of the Parent entity will be funded from current cash levels within the Group.

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 July 2022

Authorised by: By the Board  
(Name of body or officer authorising release – see note 4)

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**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.