Company number 4834265

Structural Monitoring Systems Plc

Annual Report
2014

Corporate Directory

BOARD OF DIRECTORS

Mr Toby Chandler
Managing Director

Mr Andrew Chilcott
Non Executive Director

Mr Michael Reinstein
Non Executive Director

Mr Michael Reveley
Non Executive Director

Mr David Veitch
Non Executive Director

COMPANY SECRETARY
Mr Sam Wright

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

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Important Notice

Structural Monitoring Systems Plc (the Company) is incorporated in the United Kingdom under the laws of England and Wales.
The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (including substantial holdings and takeovers).

Year ended 30 June 2014
STRATEGIC REPORT

PRINCIPAL ACTIVITIES

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

EXPLANATION OF RESULTS

As per the prior financial year, SMS continues to meet all expenditure needs, is operating in a demonstrable fiscally conservative and responsible manner, and is continued to further, and achieve, the Company's key operational and strategic objectives. The Company's ability to continue operating in this manner is greatly enhanced by the strength of our investor and operational alliances, and the importance of our relationships and programs with some of the world's preeminent aviation OEMs and operator/carriers, as well as significant organisations that represent other industry sectors.

OPERATIONS, PROJECTS, RESEARCH & DEVELOPMENT, ORDERS & DELIVERIES

Structural Monitoring Systems plc ("SMS") continued to make meaningful progress through the year and achieved further important milestones. The Company continued to develop key relationships with major players in the global aerospace sector and advance CVM™ as a highly regarded technology in the field of non-destructive testing/inspection methods pertaining to Structural Health Monitoring.

SMS has publicly announced major partner programs in the past year, including those with the Boeing Company/Delta Air Lines and Embraer S.A. These fully commercial in-flight programme (the "programme") are of great global significance, clearly highlight the depth and profile of the Company's key strategic partnerships and demonstrate the maturity and "commercial-ready" state of our technology suite. Further, it is likely SMS will be entering into further strategic alliances over the coming year which will greatly enhance the Company's global reach, profile and revenue realisation opportunities.

On 28th October 2013, SMS announced a partnership with one of the Group's long-standing commercial partners, Delta Air Lines, Inc. ("Delta"). The partnership will involve personnel from the Federal Aviation Administration ("FAA") working together with personnel from Delta, Anodyne Electronics Manufacturing Corp ("AEM") and the FAA's Airworthiness Assurance Center at Sandia National Laboratories. It is envisaged that this programme, with installation of CVM™ technology onto a number of Delta's 737-NG aircraft, will "pave the path" to mainstream use of the technology in the global commercial aviation sector. Accordingly, data and information collected from aircraft operated by a commercial carrier will satisfy regulatory bodies such as the FAA to allow routine use of the technology for installation in commercial aircraft environments. This data is additional to the extensive body of data from the various laboratory, full scale fatigue tests already conducted by SMS and/or the Group's affiliates and partners on behalf of SMS.

The installation phase of the programme to be conducted at Delta's Atlanta maintenance facility will run for several months and involve multiple aircraft. The resulting data is to be provided to Boeing and the FAA at the completion of the programme. As previously reported, SMS is very pleased to be continuing the Group's close partnership with the FAA's Airworthiness Assurance Center at Sandia National Laboratories ("Sandia"), with Sandia providing critical oversight and technical expertise during the entirety of the programme.

On 29th January 2014, the Group announced the commencement of another multi-aircraft, the programme, to be conducted by an undisclosed major aircraft Original Equipment Manufacturer ("OEM") - one of the world's pre-eminent global aviation companies ("the Client"). The Client has been a long-term SMS partner, and has been actively involved with testing and evaluating our patented suite of CVM™ monitoring products for several years.

This Programme will function as a further important culminating step to the Client's various test programmes utilizing CVM™ technology, again with Sandia National Laboratories' ("Sandia") FAA Assurance Center performing a critical oversight and advisory role in conjunction with this Programme. Regarding Sandia, and in a similar vein to the recently announced Boeing/Delta Air Lines programme, SMS remains in the fortunate position of being the direct recipient of support and advocacy from one of the world's most experienced and technically advanced organizations in the fields of structural health monitoring and alternative methods of non-destructive inspection.

The Programme is already well underway, and will involve multiple aircraft from the Client's fleet of modern single-aisle passenger jets, operated by multiple commercial carriers. The first installations have been recently completed, and the remaining installations will occur over the coming months in the Americas and Europe. The Programme's primary objectives will be to attain certification for commercial applications involving CVM™ – with this certification to be provided by the relevant regulatory oversight bodies, and inclusion of CVM™ in the Client's Service Bulletin for the specific areas in its regional jet aircraft where the technology is considered applicable and effective.

Our partnership with Anodyne Electronics Manufacturing ("AEM") continues to see a material improvement in the manufactured quality of our technology, measurable innovations in design integrity and functionality and greatly improved production scale, inventory control and repair/calibration turnaround times. In short, SMS has the ability to produce a set of quality products that will meet, and likely exceed, the commercial expectations of our partners.

PROGRESS OUTSIDE OF AVIATION

On 6th November 2013, SMS announced the signing of a Non-Disclosure Agreement ("NDA") with Cornes Technologies Ltd. ("CTL").

The Agreement has been signed following a meeting between CTL and SMS personnel in October, and subsequent to a recent tour of SMS's manufacturing and engineering operations, housed within SMS's partner, Anondyne Electronics Manufacturing Corp's ("AEM"), facilities in British Columbia, Canada. SMS was recently approached by CTL, following CTL's initial evaluation concerning the market potential of SMS's suite of CVM™ technology products.

CTL is an industry leader, representing many of the world's major companies, with extensive relationships and operations in Japan, China and the United States. CTL's core activities involve sales and marketing of electronics equipment and associated technology, electronic components, industrial machinery and scientific equipment, and the manufacture and sales of diamond CVD systems.

Future updates will be provided in due course. For more information on Cornes Technologies Ltd., see http://www.cornestech.co.jp/en/

ATO RESEARCH & DEVELOPMENT REBATE

On 18th November 2013, SMS announced that the Australian Taxation Office ("ATO") had recognized the innovation of the Research and Development project involving the in-flight structural health monitoring system being developed and tested with Embraer S.A.

SMS had previously lodged an application with Innovation Australia following advice from SMS's consultants that the R&D project may qualify SMS for a Research and Development Tax Rebate on SMS's 2012 tax return.

Following approval from the ATO of SMS's application for a Research and Development rebate, an amount of $66,157 was deemed refundable on SMS's 2012 Tax Return and a cheque for that amount plus interest has subsequently been received by SMS and banked.

Year ended 30 June 2014

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2014.

DIRECTORS

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

Toby Chandler (Managing Director)

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

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

Andrew Chilcott (Non-Executive Director)

Mr Chilcott has an extensive international aerospace background including engineering and marketing positions at Rolls-Royce Aero-Engines, sales positions with Airbus and Structural Monitoring Systems which brought Andrew and his family to their current home in Perth, Western Australia. Mr Chilcott was heavily involved in raising the awareness of the patented CVM™ technology internationally during 2006-2008. In the role of Board member, Andrew is excited about seeing the technology reach its full potential for aircraft structural health monitoring. Since 2008, Mr Chilcott has been the State Manager, Western Australia and South Australia for Landis+Gyr a global leader in smart metering infrastructure.

Mr Michael Reveley (Non-Executive Director)

Mr Reveley is managing partner, chief executive and co-portfolio manager of SEAL Capital Ltd, a Los Angeles based hedge fund specialising in global macro strategies designed to provide risk-adjusted absolute returns investing in an array of global markets, under all market conditions. Before forming SEAL Capital, he was a founding partner and deputy chief investment officer at Seagate Global Advisors in Los Angeles, having earlier been director of the syndicate and derivatives group at SBC Warburg in London and New York, vice-president of global derivatives for Swiss Bank Corporation and vice-president of the global derivatives group at First Interstate Bank, where he co-managed a USD20bn derivatives portfolio.

Mr David Veitch (Non-Executive Director)

Mr Veitch is the President and founder of Anodyne Electronics Manufacturing Corp. AEM Corp designs, manufacturers and market its own line of Aviation communication equipment, it also utilizes its expertise in these areas under contract with several OEMs. Before founding AEM Corp, he worked with Northern Airborne Technology Ltd. Where his career progressed from manufacturing to Operations Manager, helping NAT Ltd grow from a 10 person shop to a corporation with over 200 employees and $40M in annual sales.

DIRECTORS' REPORT (continued)

Michael Reinstein (Non-Executive Director)

Michael Reinstein is the Managing Director of Archetype Capital, a Los Angeles-based private equity firm. Archetype's holdings include a diverse portfolio of companies in the automotive aftermarket, beauty, healthcare and e-commerce space. Throughout his career, Mr. Reinstein has built and sold technology and media companies in both the private and public markets.

After Law School, Reinstein took over Metrinch America, a television infomercial partnership with Guthy-Renker Corp, the largest privately-held television infomercial company. Metrinch marketed a line of patented hand tools that generated $85M in sales within its first two years of operation through television infomercials and retail distribution.

While running Metrinch in 1999, Reinstein also launched an affinity marketing company that he sold in 2001 to National Media/e4L Corp., a New York Stock Exchange listed television and e-commerce company.

In 2002, Reinstein launched and financed a live television shopping channel that was distributed nationally in the U.S. in over 30 million homes via cable and satellite on DirecTV and Dish Network. He took the company public in 2004, after merging it with a national chain of thirty-five fashion jewelry stores. The business was sold in 2005 to an India-based DeBeers Diamond Trading Company.

In 2006, Reinstein purchased a London-based Interactive TV channel on the UK's British Sky Broadcasting platform that he sold in 2009.

From 2010 to 2011 Reinstein also served as the Chief Executive Officer of The Franklin Mint, one of the world's leading brands for fine coins and collectibles.

Michael Reinstein's early professional experience includes positions at International Creative Management, a leading Hollywood talent and literary agency, and in the office of former President Ronald Reagan. He attended Southern Methodist University in Dallas, Texas and is a graduate of the University of Southern California and Pepperdine University School of Law.

Mr. Reinstein is also involved in various political and charitable causes in both the United States and United Kingdom. He is a member of the State Bar of California.

The Board believes that Mr Reinstein's experience will be of significant value to the Company as it continues to move towards the ultimate aim of achieving true commercial viability of our CVM technology. Mr Reinstein is based in Los Angeles, and his appointment is in line with the Company's directive to gradually move the majority of its operational and customer-oriented business activities to the US.

Sam Wright (Company Secretary)

Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. He is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the Chartered Secretaries of Australia.

Mr Wright is currently a Non-Executive Director and Company Secretary of ASX listed company, PharmAust Limited. He is also Company Secretary for ASX listed companies, Buxton Resources Limited, Cove Resources Limited and Structural Monitoring Systems plc. Mr Wright has also filled the role of Director and Company Secretary with a number of unlisted companies.

Mr Wright is the Managing Director of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies.

DIRECTORS' REPORT (continued)

SHAREHOLDER MEETINGS

SMS held its Annual General Meeting of Shareholders at 421 N Rodeo Drive Suite B, Beverley Hills, CA 90210 USA on 15 November 2013 at 10am PST.

All resolutions that were put were unanimously passed on a show of hands.

CAPITAL RAISING

Due to the promising potential of SMS's CVM™ technology and the material progress being made towards full commercialization of this technology, SMS has been demonstrably successful to date in raising equity capital.

Over the prior twelve months, SMS has successfully raised approximately $800,000 at materially higher Group valuations compared to prior years capital raising.

On 6th November 2013, SMS raised $375,000 through the placement of 2,343,750 shares at 16 cents per share along with one free attaching option for every four shares purchased, exercisable at 25 cents and expiring 30th November 2016.

Subsequent to balance date, on 4th July 2014, SMS raised $400,000.00 through the placement of 1,000,000 shares at 40 cents per share.

These raises occurred at many valuation multiples of those raises conducted in the prior financial reporting period. The Group continues to operate with a comparably (very) low cash burn of $40-50,000 per month, and presently has approximately $600,000 in cash reserves.

With the recent dramatic increase in the Group's market capitalisation, coupled with a tight (less than 95 million shares on issue, and very few options) and strategically aligned shareholders register (the seven largest shareholders control over 50% of the Group's issued shares) the Board fully expects to be able to continuously improve the terms at which capital may be raised in the foreseeable future, and over coming years. Further, many of the Group's key officers and shareholders maintain influential relationships who will likely continue to financially support the Group on a strategic basis. However, as the commercial prospects for the Group's technology continue to improve, the Board expects the necessity for SMS to rely on equity based funding will continue to decline in the coming months. Further, when the Group is able to formally secure these commercial programmes with our partners, SMS is expected to be in a very favourable, and enduring, cash positive operating position.

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required under the rules of ASX to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU;

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

DIRECTORS' REPORT (continued)

9. EVENTS SUBSEQUENT TO BALANCE DATE

On 11 July 2014, the Group issued 1,000,000 shares, raising $400,000 before costs.

On 29 July 2014, the Group issued 46,875 shares, raising $11,718 before costs.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years

10. RESULTS AND DIVIDEND

The operating loss, after income tax, for the year was $764,207 (2013: $913,087). No dividends were proposed or paid during the financial year.

11. SHARE CAPITAL

The impact on share capital and share premium account of the share issues in the year, is disclosed in Note 16 to the Financial Statements.

12. DIRECTORS MEETINGS

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

	Board Meetings		Audit Committee		Remuneration Committee	
Director	A	B	A	B	A	B
T Chandler	2	2	1	1	-	-
M Reveley	2	2	1	1	-	-
A Chilcott	2	2	-	-	-	-
D Veitch	2	2	-	-	-	-
M Reinstein	2	-	-	-	-	-

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

DIRECTORS' REPORT (continued)

13. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

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

	Primary	Post Employment	Other	Equity	Total
30 June 2014	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Michael Reveley*	32,688	-	-	-	32,688
Toby Chandler	152,188	-	-	91,328	243,516
Andrew Chilcott	32,747	-	-	-	32,747
David Veitch*	32,688	-	-	-	32,688
Michael Reinstein	32,688	-	-	5,396	38,084
Grand Total	**282,999**	**-**	**-**	**97,624**	**379,723**

	Primary	Post Employment	Other	Equity	Total
30 June 2013	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Michael Reveley *	17,500	-	-	-	17,500
Toby Chandler	120,000	-	-	25,200	145,200
Andrew Chilcott	30,000	-	-	10,500	40,500
David Veitch*	17,500	-	-	-	17,500
Michael Reinstein	32,500	-	-	-	32,500
Grand Total	**217,500**	**-**	**-**	**35,700**	**253,200**

The remuneration policy of the Group is outlined in Note 22 (b) in the Notes to the Financial Statements.

* Appointed as director on 28 November 2012.

DIRECTORS' REPORT (continued)

14. OPTIONS GRANTED AS COMPENSATION

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

No shares were issued on exercise of remuneration options.

15. SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

Director	Date Appointed	Ordinary Shares	Percentage of total issued shares of the Company	Options remaining on issue
Specified Directors		No.	%	No.
Toby Chandler	2 May 2011	5,854,947	6.35%	-
Andrew Chilcott	1 March 2011	400,000	0.43%	-
Michael Reinstein	30 November 2011	266,250	0.29%	-
David Veitch	28 November 2012	-	-	-
Michael Reveley	28 November 2012	3,185,000	3.45%	-
Total		**9,706,197**	**10.52%**	**-**

The above relates to share and option holdings as at 30 June 2014.

DIRECTORS' REPORT (continued)

16. AUDITORS

Details of the amounts paid to the auditor of the Group, Baker Tilly UK Audit LLP, and other auditors for audit and non-audit services provided during the year are set out below.

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Amounts received or due and receivable by Baker Tilly UK Audit LLP for:				
• an audit or review of the financial report of the entity and the Group	21,239	20,606	21,239	20,606
Amounts received or due and receivable by RSM Bird Cameron Partners for:				
• an audit or review of the financial report of the principal trading subsidiary	28,000	40,500	-	-
• other services in relation to the entity and any other entity in the Group – tax compliance	12,700	8,000	2,200	4,000
	61,939	69,106	23,439	24,606

17. INFORMATION GIVEN TO AUDITORS

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

18. CREDITOR PAYMENT POLICY

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2015. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2014, the Group's trade creditors represented 41.95 days' purchases (2013: 46.49 days).

19. FINANCIAL POSITION

The net liabilities of the consolidated entity were $5,925 (2013: net assets of $7,667).

DIRECTORS’ REPORT (continued)

20. FINANCIAL INSTRUMENTS

The Group does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk. Further information is provided in note 17 to the Financial Statements.

As a result of operations in United Kingdom, USA and Australia, the Group’s assets and liabilities can be affected by movements in the UK£/A$ and USD$/A$ exchange rates.

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

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

21. KEY PERFORMANCE INDICATORS

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

22. PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks facing the Group are detailed in note 17 of the Financial Statements. In addition, the group faces the commercial risks of obtaining additional financing, of sustaining quality of service delivery, of staff retention and of the ability to renew or extend in-licensing or other strategic partnership agreements with a third-party. The directors continuously monitor these risks, both, formally at Board meetings and informally throughout the year, particularly during the strategic planning and budgeting processes.

By order of the Board

Toby Chandler
Managing Director
29 August 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 June 2014

		CONSOLIDATED		*PARENT*	
		2014	*2013*	*2014*	*2013*
	Note	*$*	*$*	*$*	*$*
Continuing Operations					
Revenue					
Sale of goods		151,375	143,977	-	-
Cost of sales		(112,549)	(99,416)	-	-
Gross profit		38,826	44,561	-	-
Other income	4(a)	88,643	197,472	18,164	32,492
Impairment charges	4(d)	-	-	(595,898)	(783,778)
Occupancy expenses		(10,285)	(19,080)	417	(2,227)
Research and development expenses	4(e)	(32,973)	(413,056)	-	-
Administrative expenses		(833,839)	(723,088)	(190,492)	(159,574)
Loss from continuing operations before income tax and finance costs		(749,628)	(913,191)	(767,809)	(913,087)
Finance (costs)/income	4(b)	(108)	104	-	-
Foreign currency translations	4(c)	(14,471)	-	-	-
Income tax expenses	5(a)	-	-	-	-
Loss after finance costs and tax from continuing operations		(764,207)	(913,087)	(767,809)	(913,087)
Loss attributable to members of the parent		(764,207)	(913,087)	(767,809)	(913,087)
Other comprehensive income:		-	-	-	-
Total Comprehensive (Loss) /Income for the Period attributable to members of the parent		(764,207)	(913,087)	(767,809)	(913,087)
Loss per share (cents per share)					
- basic for loss from continuing operations	6	(0.84)	(1.30)		
- diluted for loss from continuing operations	6	(0.84)	(1.30)		

The accompanying notes form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2014

		CONSOLIDATED		*PARENT*	
		2014	*2013*	*2014*	*2013*
	Note	*$*	*$*	*$*	*$*
ASSETS					
Non-Current Assets					
Intangible Assets	9	-	-	-	-
Property, plant and equipment	7	-	-	-	-
Investment in subsidiaries	8	-	-	2,963	110,178
Total Non-current assets		-	-	2,963	110,178
Current Assets					
Trade receivable	10	12,863	-	-	-
Prepayment and other receivables	11	17,127	46,296	2,844	-
Cash and cash equivalents	12(b)	231,727	326,016	-	-
Total Current Assets		261,717	372,312	2,844	-
TOTAL ASSETS		261,717	372,312	5,807	110,178
LIABILITIES					
Current Liabilities					
Trade and other payables	15	267,642	364,645	15,334	102,511
Total Current Liabilities		267,642	364,645	15,334	102,511
TOTAL LIABILITIES		267,642	364,645	15,334	102,511
NET (LIABILITIES) / ASSETS		(5,925)	7,667	(9,527)	7,667
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	16	31,815,533	31,783,871	31,815,533	31,783,871
Share premium account	16	14,531,516	13,812,563	14,531,516	13,812,563
Accumulated losses		(44,653,531)	(43,889,324)	(44,617,893)	(43,850,084)
Other reserves		(1,699,443)	(1,699,443)	(1,738,683)	(1,738,683)
TOTAL EQUITY		(5,925)	7,667	(9,527)	7,667

The accompanying notes form an integral part of the financial statements.

Approved by the Board and authorised for issue on 29 August 2014

..........Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 June 2014

		CONSOLIDATED		*PARENT*	
		2014	*2013*	*2014*	*2013*
	Note	*$*	*$*	*$*	*$*
Cash flows from operating activities					
Receipts from customers		138,512	143,977	-	-
Payments to suppliers and employees		(696,443)	(560,323)	(115,492)	(141,403)
Other income		88,642	99,185	-	29,242
Net cash flows used in operating activities	12(a)	(469,289)	(317,161)	(115,492)	(112,161)
Cash flows from investing activities					
Interest received		-	104	-	-
Net cash flows from investing activities		-	104	-	-
Cash flows from financing activities					
Proceeds from issue of shares (net of costs)		375,000	425,388	375,000	425,390
Cash received in advance pending allotment of shares		-	75,258	-	75,258
Loan to Subsidiary		-	-	(259,508)	(388,487)
Net cash flows from financing activities		375,000	500,646	115,492	112,161
Net (decrease)/increase in cash and cash equivalents		(94,289)	183,589	-	-
Cash and cash equivalents at beginning of year		326,016	142,427	-	-
Cash and cash equivalents at end of year		231,727	326,016	-	-

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 June 2014

	Issued Capital	Accumulated Losses	Share Premium Reserve	Share Based Payment Reserve	Foreign Exchange Reserves	Total
CONSOLIDATED	$	$	$	$	$	$
At 1 July 2012	31,668,909	(42,976,237)	13,066,294	571,558	(2,271,001)	59,523
Loss for the year	-	(913,087)	-	-	-	(913,087)
Total comprehensive loss for the year	-	(913,087)	-	-	-	(913,087)
Issue of share capital	114,962	-	746,269	-	-	861,231
At 30 June 2013	31,783,871	(43,889,324)	13,812,563	571,558	(2,271,001)	7,667
Loss for the year	-	(764,207)	-	-	-	(764,207)
Total comprehensive loss for the year	-	(764,207)	-	-	-	(764,207)
Issue of share capital	31,662	-	718,953	-	-	750,615
At 30 June 2014	31,815,533	(44,653,531)	14,531,516	571,558	(2,271,001)	(5,925)

PARENT	Issued Capital	Accumulated losses	Share Premium Reserve	Share Based Payment Reserve	Foreign Exchange Reserves	Total
	$	$	$	$	$	$
At 1 July 2012	31,668,909	(42,936,997)	13,066,294	571,558	(2,310,241)	59,523
Loss for the year	-	(913,087)	-	-		(913,087)
Total comprehensive loss for the year	-	(913,087)	-	-	-	(913,087)
Issue of share capital	114,962	-	746,269	-	-	861,231
At 30 June 2013	31,783,871	(43,850,084)	13,812,563	571,558	(2,310,241)	7,667
Loss for the year	-	(767,809)	-	-	-	(767,809)
Total comprehensive loss for the year	-	(767,809)	-	-	-	(767,809)
Issue of share capital	31,662	-	718,953	-	-	750,615
At 30 June 2014	31,815,533	(44,617,893)	14,531,516	571,558	(2,310,241)	(9,527)

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 June 2014

1 CORPORATE INFORMATION AND AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements of Structural Monitoring Systems Plc for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 29 August 2014 and the statements of financial position were signed on the board's behalf by Toby Chandler.

Structural Monitoring Systems Plc is a public limited company incorporated and domiciled in the United Kingdom. The Company's ordinary shares, when held as a Chess Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK register cannot be traded on the ASX.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements and those of the parent entity are presented in Australian dollars which is the Group's functional currency.

(b) Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, respectively, the company and consolidated entity incurred losses of $767,809 and $764,207 and had net cash outflows from operating activities of $115,492 and $469,289, for the year ended 30 June 2014. As at that date, respectively, the company and consolidated entity had net (liabilities) of $9,527 and $5,925.

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

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

- The company's ability to issue additional shares to raise capital in accordance with the Companies Act 2006. As disclosed in Note 20, the company raised $411,718 subsequent to year end;
- Further commercial exploitation of the company's technologies and products at amounts sufficient to meet proposed expenditure commitments; and
- The company's ability to further reduce operational cost levels, to conserve cash in the event that capital raisings are delayed or partial, having regard to expense reduction efforts that thus far have resulted in, significant cost savings from decreased staff numbers, a reduction of the office space footprint and an outsourced laboratory and workshop functions.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union as they apply to the financial statements Group for the year ended 30 June 2014 and applied in accordance with the Companies Act 2006.

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

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

(d) Accounting standards and Interpretations

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

(e) Basis of consolidation

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

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

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

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

Business Combinations

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

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Basis of consolidation (continued)

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group entities

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

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

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

All resulting exchange differences are recognised as a separate component of equity and in Other comprehensive Income.

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

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

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

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

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

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

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

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

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

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

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

(h) Intangible Assets

(i) Research and patent costs are expensed as incurred.

(ii) Development expenditure incurred is carried forward only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliability.

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Recoverable amount of assets

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

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

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

(j) Trade and other receivables

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

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

(k) Cash and cash equivalents

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

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(l) Provisions

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share-based payment transactions

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

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

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

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

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

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

(n) Revenue

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

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

(o) Income tax

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Other taxes

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

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

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

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

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

(q) Employee Entitlements

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

(r) Trade and other payables

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

(s) Operating leases

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

(t) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Critical accounting estimates and judgements

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

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

As at 30 June 2014, there are no critical accounting estimates and judgements contained in the financial report.

(v) Changes in accounting policies and disclosures

In the year ended 30 June 2014, the consolidated entity has reviewed all of the new and revised Standards and Interpretations issued by the IASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the consolidated entity that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to consolidated entity accounting policies.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) New Accounting Standards and Interpretations not yet mandatory or early adopted

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

Reference	Title	Summary	Application date (financial years beginning)
IFRS 9	Financial Instruments	This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phases I and III of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in IAS 39 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.	1 January 2015
IAS 32	Offsetting Financial Assets and Financial Liabilities	The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in IAS 32 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.	1 July 2014

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

Reference	Title	Summary	Application date (financial years beginning)
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of IAS 36 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.	1 July 2014
IFRS 10, 12 and IAS 27	Investment Entities	These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard. The adoption of these amendments from 1 July 2014 will have no impact on the consolidated entity.	1 July 2014

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

3 SEGMENT INFORMATION

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

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

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

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2014 and 2013:

	Australia	*US/Canada*	*UK*	*Total*
	$	*$*	*$*	*$*
Year ended 30 June 2014				
Revenue				
Sales to external customers	-	151,375	-	151,375
Finance income	-	-	-	-
Other operating income from external parties	88,643	-	-	88,643
Revenue from continuing operations	88,643	151,375	-	240,018
Inter-segment elimination	-	-	-	-
Segment revenue	88,643	151,375	-	240,018
Sales revenue by customer location:				
Australasia	-	-	-	-
Europe	-	10,511	-	10,511
Americas	-	140,864	-	140,864
Total revenue	-	151,375	-	151,375
Result				
Segment result	(253,166)	(409,611)	(190,073)	(852,850)
Other Revenue	88,643	-	-	88,643
Unallocated expenses	-	-	-	-
Loss before tax	(164,523)	(409,611)	(190,074)	(764,207)
Income tax expense	-	-	-	-
Loss for the year	(164,523)	(409,611)	(190,074)	(764,207)
Assets and liabilities				
Segment assets	246,554	15,163	-	261,717
Unallocated assets	-	-	-	-
Total assets	246,554	15,163	-	261,717
Segment liabilities	78,985	188,657		267,642
Unallocated liabilities	-	-	-	-
Total liabilities	78,985	188,657	-	267,642
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

3 SEGMENT INFORMATION (continued)

	Australia $	*US/Canada* $	*UK* $	*Total* $
Year ended 30 June 2013				
Revenue				
Sales to external customers	-	143,977	-	143,977
Finance income	104	-	-	104
Other operating income from external parties	197,472	-	-	197,472
Revenue from continuing operations	197,576	143,977	-	341,553
Inter-segment elimination	-	-	-	-
Segment revenue	197,576	143,977	-	341,553
Sales revenue by customer location:				
Australasia	-	-	-	-
Europe	-	51,504	-	51,504
Americas	-	92,473	-	92,473
Total revenue	-	143,977	-	143,977
Result				
Segment result	(112,180)	(639,105)	(161,801)	(913,087)
Other Revenue	-	-	-	-
Unallocated expenses	-	-	-	-
Loss before tax	(112,180)	(639,106)	(161,801)	(913,087)
Income tax expense	-	-	-	-
Loss for the year	(112,180)	(639,106)	(161,801)	(913,807)
Assets and liabilities				
Segment assets	40,507	331,805	-	372,312
Unallocated assets	-	-	-	-
Total assets	40,507	331,805	-	372,312
Segment liabilities	198,495	63,639	102,511	364,645
Unallocated liabilities	-	-	-	-
Total liabilities	198,495	63,639	102,511	364,645
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

3 SEGMENT INFORMATION (continued)

	2014 *$*	*2013* *$*	*2014* *%*	*2013* *%*
Major customers During the year, 3 customers (2013: 5) each accounted for a portion of the Group's revenues:				
Customer 1	6,850	-	5%	-
Customer 2	3,660	12,731	2%	9%
Customer 3	140,865	84,384	93%	59%
Customer 4	-	26,198	-	18%
Customer 5	-	8,089	-	5%
Customer 6	-	12,575	-	9%
	151,375	143,977	100%	100%

4 INCOME AND EXPENSES

(a) Other income

	CONSOLIDATED		*PARENT*	
	2014 *$*	*2013* *$*	*2014* *$*	*2013* *$*
Tax refunds	66,158	67,348	-	-
Sundry income	4,321	53,982	-	-
Realised gain on debt to equity swap	-	46,900	-	3,250
Foreign exchange gain	18,164	29,242	18,164	29,242
	88,643	197,472	18,164	32,492

(b) Finance income / (cost)

Interest expense	(108)	-	-	-
Bank interest	-	104	-	-

(c) Foreign exchange differences included in statement of comprehensive income

Net foreign exchange differences	(14,471)	-	-	-

(d) Impairment charges

Impairment of investment in subsidiary	-	-	(595,898)	(783,778)
	-	-	(595,898)	(783,778)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

4 INCOME AND EXPENSES

(e) Research and development costs

Research and development costs expensed	(32,973)	(413,056)	-	-

5 INCOME TAX

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*

Major components of income tax expense for the years ended 30 June 2014 and 30 June 2013 are:

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

A reconciliation of income tax expense applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the effective income tax rate for the years ended 30 June 2014 and 2013 is as follows:

Accounting loss before tax from continuing operations	(764,207)	(913,087)	(767,809)	(913,087)
Accounting loss before income tax	(764,207)	(913,087)	(767,809)	(913,087)
At the statutory income tax rate of 30% (2013:30%)	(229,262)	(273,926)	(230,343)	(273,926)
Expenditure not allowable for income tax purposes	86,362	37,021	24,644	6,520
Research and development benefit	-	-	-	-
Deferred tax asset not recognised	142,900	236,905	205,699	267,406
Income tax credit reported in statement of comprehensive income	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

5 INCOME TAX (continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
CONSOLIDATED	$	$	$	$	$	$
Accrued expenses	-	-	(11,500)	(12,438)	(11,500)	(12,438)
Costs deductible over five years	25,258	50,582	-	-	25,258	50,582
Patents and trademarks	8,042	7,598	-	-	8,042	7,598
Tax losses	11,074,493	10,905,775	-	-	11,074,493	10,905,775
Tax (assets)/ liabilities	11,107,793	10,963,955	(11,500)	(12,438)	11,096,293	10,951,517
Set off of tax	(11,107,793)	(10,963,955)	11,500	12,438	(11,096,293)	(10,951,517)
Net tax (assets)/ liabilities	-	-	-	-		-

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
PARENT	$	$	$	$	$	$
Accrued expenses	-	-	(4,600)	(5,238)	(4,600)	(5,238)
Costs deductible over five years	25,258	50,582	-	-	25,258	50,582
Loan receivable	893,923	715,154	-	-	893,923	715,154
Tax losses	1,604,271	1,551,379	-	-	1,604,271	1,551,379
Tax (assets)/ liabilities	2,523,452	2,317,115	(4,600)	(5,238)	2,518,852	2,311,877
Set off of tax	(2,523,452)	(2,317,115)	4,600	5,238	(2,518,852)	(2,311,877)
Net tax (assets)/ liabilities	-	-	-	-	-	-

Unrecognised deferred tax assets

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Impairment of investments	-	-	893,923	715,154
Patents	8,042	7,598	-	-
Capital raising costs	25,258	50,582	25,258	50,582
Tax losses	11,074,493	10,905,775	1,604,271	1,551,379
	11,107,793	10,963,955	2,523,452	2,317,115

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

6 LOSS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share has not been calculated as there were no options on issue which would be potential ordinary shares having a dilutive effect. The number of anti-dilutive options at 30 June 2014 was 2,460,992 (2013: 21,231,921). The movement was largely due to the expiry of options on 1 July 2013.

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

	CONSOLIDATED	
	2014	*2013*
	$	*$*
Net loss attributable to equity holders from continuing operations	(764,207)	(913,087)
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for basic loss per share	90,456,507	70,149,008
Weighted average number of ordinary shares for diluted loss per share	90,456,507	70,149,008

7 PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED			*PARENT*	
	Leasehold Improvements	*Plant and equipment*	*Total*	*Plant and equipment*	*Total*
	$	*$*	*$*	*$*	*$*
Year ended 30 June 2014					
Cost					
At 1 July 2013	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At 30 June 2014	-	-	-	-	-
Depreciation					
At 1 July 2013	-	-	-	-	-
Charge for the year	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-
At 30 June 2014	-	-	-	-	-
Written down value at 30 June 2014	-	-	-	-	-

7 PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED			*PARENT*	
	Leasehold Improvements $	*Plant and equipment $*	*Total $*	*Plant and equipment $*	*Total $*
Year ended 30 June 2013					
Cost					
At 1 July 2012	154,079	885,491	1,039,570	29,606	29,606
Additions	-	-	-	-	-
Disposals	(154,079)	(885,491)	(1,039,570)	(29,606)	(29,606)
At 30 June 2013	-	-	-	-	-
Depreciation					
At 1 July 2012	154,079	885,491	1,039,570	29,606	29,606
Charge for the year	-	-	-	-	-
Eliminated on disposal	(154,079)	(885,491)	(1,039,570)	(29,606)	(29,606)
At 30 June 2013	-	-	-	-	-
Written down value at 30 June 2013	-	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

8 INVESTMENTS IN SUBSIDIARIES

	PARENT		
	Loan to Subsidiary Undertaking $	*Investment in Subsidiary Undertaking $*	*Total $*
Year ended 30 June 2014			
Cost			
At 1 July 2013	-	39,369,197	39,369,197
Arising during the year	-	488,683	488,683
At 30 June 2014	-	39,857,880	39,857,880
Impairment			
At 1 July 2013	-	39,259,019	39,259,019
Impairment charge	-	595,898	595,898
	-	39,854,917	39,854,917
Net carrying amount at 30 June 2014	-	2,963	2,963
Year ended 30 June 2013			
Cost			
At 1 July 2012	-	38,549,369	38,549,369
Arising during the year	819,828	-	819,828
Reclassification of loan as investment	(819,828)	819,828	-
At 30 June 2013	-	39,369,197	39,369,197
Impairment			
At 1 July 2012	-	38,475,241	38,475,241
Impairment charge	-	783,778	783,778
	-	39,259,019	39,259,019
Net carrying amount at 30 June 2013	-	110,178	110,178

The intercompany loan was reclassified as an investment as at 30 June 2013 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cash flows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the nature of the loan is likely to be an investment. The investment has had an impairment charge applied to write the balance down to net asset of the subsidiary.

The consolidated financial statements include the financial statements of the Company and the material subsidiary listed in the following table.

	County of Incorporation	**Type of equity**	**% Equity Interest**	
			2014	**2013**
At cost			**%**	**%**
Structural Monitoring System Limited	Australia	Ordinary share	100	100

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

9 INTANGIBLE ASSETS

	CONSOLIDATED				*PARENT*
	Goodwill *$*	*Technology Licence* *$*	*Patents and licence* *$*	*Total* *$*	*Total* *$*
Year ended 30 June 2014					
Cost					
At 1 July 2013 and 30 June 2014	20,868,694	125,000	1,760,616	22,754,310	-
Impairment					
At 1 July 2013 and 30 June 2014	(20,868,694)	-	-	(20,868,694)	-
Amortisation					
At 1 July 2013 and 30 June 2014	-	(125,000)	(1,760,616)	(1,885,616)	-
Net book value at 30 June 2014	-	-	-	-	-
Year ended 30 June 2013					
Cost					
At 1 July 2012 and 30 June 2013	20,868,694	125,000	1,760,616	22,754,310	-
Impairment					
At 1 July 2012 and 30 June 2013	(20,868,694)	-	-	(20,868,694)	-
Amortisation					
At 1 July 2012 and 30 June 2013	-	(125,000)	(1,760,616)	(1,885,616)	-
Net book value at 30 June 2013	-	-	-	-	-

10 TRADE RECEIVABLES

	CONSOLIDATED		*PARENT*	
	2014 *$*	*2013* *$*	*2014* *$*	*2013* *$*
Trade receivables	12,863	-	-	-
	12,863	-	-	-

11 PREPAYMENT AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		*PARENT*	
	2014 *$*	*2013* *$*	*2014* *$*	*2013* *$*
Prepayment	3,600	18,881	-	-
Other receivable	2,844	-	2,844	-
GST receivable	10,683	27,415	-	-
	17,127	46,296	2,844	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

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

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Net loss for the year	(764,207)	(913,087)	(767,809)	(913,087)
Adjustments for:				
Finance income	-	(104)	-	-
Share based payments	305,271	435,842	76,097	4,500
Impairment of investment in subsidiary	-	-	595,898	783,778
Changes in assets and liabilities				
Trade and other receivables	19,150	(36,189)	-	-
Trade and other payables	(29,503)	196,377	(19,678)	12,648
Net cash used in operating activities	(469,289)	(317,161)	(115,492)	(112,161)

12(b) CASH AND CASH EQUIVALENTS

Cash at bank	231,644	325,933	-	-
Cash on hand	83	83	-	-
	231,727	326,016	-	-

13 EMPLOYEE BENEFITS

(a) Employees share option plan

The Group has an employee share options plan (ESOP) for the granting of non-transferable options to executive directors and employees with more than six months' service at the grant date.

No options were issued under the ESOP during the reporting period, or during the prior reporting period.

The options are cancelled upon the director or employee leaving the service of the Group.

b) Pensions and other post-employment benefit plans

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

14 SHARE BASED PAYMENTS

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Corporate services	305,271	123,450	94,803	26,250
Research & Development	-	312,392	-	-
	305,271	435,842	94,803	26,250

The company issued shares and options to employees and professional advisors during the prior year in respect of services performed, and vested immediately. The maximum term of the options is nil (2013: nil) years. The movement in share and options is shown in Note 16.

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

Year	**Grant Date**	**Number**
2012	28 November 2012	400,000
2013	8 April 2013	1,525,000
2014	15 November 2013	571,429
2014	5 June 2014	291,250

The weighted average fair value of those equity instruments, determined by reference to market price was between $0.20 and $0.34 (2013: $0.04)

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

15 TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Trade and other payables	267,642	364,645	15,334	102,511
	267,642	364,645	15,334	102,511

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

16 ISSUED CAPITAL AND RESERVES

	CONSOLIDATED 2014 $	*CONSOLIDATED 2013 $*	*PARENT 2014 $*	*PARENT 2013 $*
Ordinary Shares				
Issued and fully paid	31,815,533	31,783,871	31,815,533	31,783,871
Total issued and fully paid	31,815,533	31,783,871	31,815,533	31,783,871

	Shares in Issue (No.)	*$*
Movement in ordinary shares in issue		
At 30 June 2012	62,877,288	31,668,909
Issued on 8 August 2012 – share based payment	1,571,928	7,860
Issued on 24 September 2012 – Capital raising	1,875,000	9,375
Issued on 7 November 2012– share based payment	1,658,101	8,290
Issued on 28 November 2012 – share based payment	900,000	4,500
Issued on 7 February 2013 - share based payment	1,722,054	8,610
Issued on 8 April 2013 – share based payment	1,975,000	9,875
Issued on 8 April 2013 – Conversion of SMNOB Options	4,590	23
Issued on 7 May 2013 – share based payment	2,285,838	11,429
Issued on 16 May 2013 – Capital Raising	11,000,000	55,000
At 30 June 2013	85,869,799	31,783,871
Issued on 26 July 2013 – Capital Raising	2,700,000	13,500
Issued on 12 November 2013 – Capital Raising	2,343,750	11,719
Issued on 15 November 2013 – share based payment	928,572	4,643
Issued on 5 June 2014 - share based payment on conversion of performance rights to shares	360,000	1,800
At 30 June 2014	92,202,121	31,815,533

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

16 ISSUED CAPITAL AND RESERVES (continued)

	CONSOLIDATED 2014 $	*CONSOLIDATED 2013 $*	*PARENT 2014 $*	*PARENT 2013 $*
Share Premium Reserve				
Share Premium Reserve	14,531,516	13,812,563	14,531,516	13,812,563

Movement in ordinary shares in issue	*Shares in Issue (No.)*	*$*
At 30 June 2012	62,877,288	13,066,294
Issued on 8 August 2012 – AEM share based payment	1,571,928	55,017
Issued on 24 September 2012 – Capital raising	1,875,000	140,625
Issued on 7 November 2012– AEM share based payment	1,658,101	74,615
Issued on 28 November 2012 – share based payment	900,000	36,000
Issued on 7 February 2013 - AEM share based payment	1,722,054	61,994
Issued on 8 April 2013 – share based payment	1,975,000	73,075
Issued on 8 April 2013 – Conversion of SMNOB Options	4,590	367
Issued on 7 May 2013 – AEM share based payment	2,285,838	84,576
Issued on 16 May 2013 – capital raising	11,000,000	220,000
At 30 June 2013	85,869,799	13,812,563
Issued on 26 July 2013 – Capital Raising	2,700,000	54,000
Issued on 12 November 2013 – Capital Raising	2,343,750	363,281
Issued on 15 November 2013 – share based payment	928,572	181,072
Issued on 5 June 2014 - share based payment on conversion of performance rights to shares	360,000	120,600
At 30 June 2014	92,202,121	14,531,516

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

16 ISSUED CAPITAL AND RESERVES (continued)

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Other Reserves				
Option Reserve	571,558	571,558	*571,558*	571,558

	Unlisted Options on Issue	*$*
Outstanding listed options at 30 June 2012	32,677,152	571,558
Conversion of SMNOB Options	(4,590)	-
Expiry of SMNOB Options – 31 March 2013	(11,440,641)	-
Issue of free attaching options – 21 September 2012	1,875,000	-
Outstanding listed options at 30 June 2013	23,106,921	571,558
Expiry of SMNOA Options – 1 July 2013	(21,231,867)	-
Issue of free attaching options – 12 November 2013	585,938	-
Outstanding listed options at 30 June 2014	2,460,992	571,558
Exercisable at year end	2,460,992	

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 $0.005 (2013:$0.005). Costs of the issues are written off against the reserve.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

Financial Risk Management
Overview

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

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

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

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

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

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

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

Interest rate risk

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis for 2013.

		Profit or loss		Equity	
Consolidated - 30 June 2014	**Carrying Value at year end**	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
	$	$	$	$	$
Cash and cash equivalents	231,727	2,317	(2,317)	2,317	(2,317)
Consolidated - 30 June 2013					
Cash and cash equivalents	326,016	3,260	(3,260)	3,260	(3,260)

		Profit or loss		Equity	
Parent - 30 June 2014	**Carrying Value at year end**	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
	$	$	$	$	$
Cash and cash equivalents	-	-	-	-	-
Parent - 30 June 2013					
Cash and cash equivalents	-	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Credit risk

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

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

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

Exposure to credit risk

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

	Consolidated Carrying amount		Parent Carrying amount	
	2014	2013	2014	2013
	$	$	$	$
Cash and cash equivalents	231,727	326,016	-	-
	231,727	326,016	-	-

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:	Consolidated Carrying amount		Parent Carrying amount	
	2014	2013	2014	2013
	$	$	$	$
Europe	1,616	-	-	-
USA	11,247	-	-	-
	12,863	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Impairment losses

The aging of the Group's trade receivables at the reporting date was:

	Consolidated		Consolidated	
	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
	$	$	$	$
Not past due	1,616	-	-	-
Past due 0-30 days	11,247	-	-	-
Past due 31-120 days	-	-	-	-
	12,863	-	-	-

There were no impairment losses at 30 June 2014 (2013: $Nil).

Liquidity risk

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

The following are the contractual maturities of financial liabilities:

Consolidated - 30 June 2014	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	(267,642)	(267,642)	(267,642)
	(267,642)	(267,642)	(267,642)

Consolidated - 30 June 2013	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	(364,645)	(364,645)	(364,645)
	(364,645)	(364,645)	(364,645)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the Group is equal to their carrying value.

Foreign Currency Risk

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

Exposure to Currency Risk

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

	30 June 2014		30 June 2013	
In AUD	**AUD**	**USD**	**AUD**	**USD**
Cash	2,263	229,464	13,092	312,924
Trade Receivables	17,127	12,863	46,296	-
Trade Payables	78,985	188,658	318,506	46,139
	98,375	430,985	377,894	359,063

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

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	**2014**	**2013**	**2014**	**2013**
USD	0.9178	1.0273	0.9419	0.9146

Capital Risk Management

The Company and the Group's objectives when managing capital are to safeguard the Company and the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management of the Company and the Group's capital is performed by the Board.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

18 COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Group as lessee

At year end the only lease obligation in existence is the US Rental Lease. Rent is USD400 per calender year. Thus there is a 12 month commitment in AUD disclosed below. The prior year operating lease was paid out during the 2013 financial year.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2014 are as follows:

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Within one year	5,230	416	-	416
After one year but not more than five years	-	-	-	-
	5,230	416	-	416

19 RELATED PARTY DISCLOSURE

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

	Country of incorporation	*% Equity interest*		*Investment ($)*	
		2014	*2013*	*2014*	*2013*
Structural Monitoring Systems Ltd	Australia	100	100	-	-
Structural Health Monitoring Ltd	United Kingdom	100	100	-	-
Structural Monitoring Systems Inc	United States	100	100	-	-
				-	-

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

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

This intercompany loan has been reclassified as an investment in the prior year ended 30 June 2013 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cash flows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the nature of the loan is likely to be an investment. The investment has had an impairment charge applied to write the balance down to net asset of the subsidiary.

Anodyne Electronics Manufacturing Corporation (AEM), a company of which David Veitch is the President of the company has the following transactions with the Group:

Nature	*2014* *$*	*2013* *$*
Purchase:		
Manufacturing services	112,549	101,820
Research and development	-	312,392
Other income:		
Recoupment of costs	-	51,387
Balance outstanding at reporting date:		
Trade and other creditors	73,094	46,140

Notes to the Financial Statements (continued)

19 RELATED PARTY DISCLOSURE (continued)

The following are the amounts due to and from directors at reporting date:

	2014	*2013*
	$	*$*
Due to director – David Veitch	50,188	17,500
Due to director – Michael Reinstein	32,560	-
Due to director – Robert Michael Reveley	32,688	-
Due from director – Toby Chandler	2,173	18,882

20 EVENTS AFTER THE BALANCE SHEET DATE

On 11 July 2014, the company issued 1,000,000 shares, raising $400,000 before costs.

On 29 July 2014, the company issued 46,875 shares, raising $11,718 before costs.

Apart from the above, there are no other matters or circumstances that have arisen since 30 June 2014 that have or may significantly affect the operations, results, or state of affairs of the Group in future financial years.

21 AUDITORS' REMUNERATION

Details of the amounts paid to the auditor of the Company, Baker Tilly UK Audit LLP, and other auditors for audit and non-audit services provided during the year are set out below.

	CONSOLIDATED		*PARENT*	
	2014	*2013*	*2014*	*2013*
	$	*$*	*$*	*$*
Amounts received or due and receivable by Baker Tilly UK Audit LLP for:				
• an audit or review of the financial report of the entity and the Group	21,239	20,606	21,239	20,606
Amounts received or due and receivable by RSM Bird Cameron Partners for:				
• an audit or review of the financial report of the principal trading subsidiary	28,000	40,500	-	-
• other services in relation to the entity and any other entity in the Group – tax compliance	12,700	8,000	2,200	4,000
	61,939	69,106	23,439	24,606

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

22 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i)Specified directors

Toby Chandler	Managing Director
Andrew Chilcott	Director
Michael Reinstein	Director
David Veitch	Director
Michael Reveley	Director

(ii)Specified executives

Nil

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

22 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(ii)Remuneration of Directors

	Primary	Post Employment	Other	Equity	Total
30 June 2014	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Michael Reveley	32,688	-	-	-	32,688
Toby Chandler	152,188	-	-	91,328	243,516
Andrew Chilcott	32,747	-	-	-	32,747
David Veitch	32,688	-	-	-	32,688
Michael Reinstein	32,688	-	-	5,396	38,084
Grand Total	**282,999**	**-**	**-**	**96,724**	**379,723**

	Primary	Post Employment	Other	Equity	Total
30 June 2013	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Michael Reveley*	17,500	-	-	-	17,500
Toby Chandler	120,000	-	-	25,200	145,200
Andrew Chilcott	30,000	-	-	10,500	40,500
David Veitch*	17,500	-	-	-	17,500
Michael Reinstein	32,500	-	-	-	32,500
Grand Total	**217,500**	**-**	**-**	**35,700**	**253,200**

* Appointed as director on 28 November 2012.

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

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

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

None.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2014

22 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Option holdings of Directors

2014	*Balance at beg of period*	*Option held on appointment*	*Options Exercised*	*Net Change Other*	*Balance at end of period*
	No.	No.	No.	No.	No.
Directors					
Toby Chandler	-	-	-	-	-
Andrew Chilcott	-	-	-	-	-
Michael Reinstein	-	-	-	-	-
Michael Reveley	2,000,000	-	-	(2,000,000)	-
David Veitch	-	-	-	-	-
	2,000,000	-	-	(2,000,000)	-

2013	*Balance at beg of period*	*Option held on appointment*	*Options Exercised*	*Net Change Other*	*Balance at end of period*
	No.	No.	No.	No.	No.
Directors					
Toby Chandler	-	-	-	-	-
Andrew Chilcott	-	-	-	-	-
Michael Reinstein	-	-	-	-	-
Michael Reveley	-	2,000,000	-	-	2,000,000
David Veitch	-	-	-	-	-
	-	2,000,000	-	-	2,000,000

(f) Shareholdings of Directors

Shares held in Structural Monitoring Systems Plc:

2014	*Balance at beg of period*	*Share held on appointment date*	*Granted as Remuneration*	*Options Exercised*	*Acquired*	*Balance at end of period*
	No.	No.	No.	No.	No.	No.
Directors						
Michael Reveley	2,175,000	-	-	-	1,010,000	3,185,000
Toby Chandler	4,933,518	-	846,429	-	75,000	5,854,947
David Veitch	-	-	-	-	-	-
Andrew Chilcott	400,000	-	-	-	-	400,000
Michael Reinstein	250,000	-	16,250	-	-	266,250
Total	7,758,518	-	862,679	-	1,085,000	9,706,197

2013	*Balance at beg of period*	*Share held on appointment date*	*Granted as Remuneration*	*Options Exercised*	*Net Change Other*	*Balance at end of period*
	No.	No.	No.	No.	No.	No.
Directors						
Michael Reveley*****	-	2,000,000	175,000	-	-	2,175,000
Toby Chandler	3,533,518	-	1,400,000	-	-	4,933,518
David Veitch*****	-	-	-	-	-	-
Andrew Chilcott	150,000	-	250,000	-	-	400,000
Michael Reinstein	150,000	-	100,000	-	-	250,000
Total	3,833,518	2,000,000	1,925,000	-	-	7,758,518

* Appointed as director on 28 November 2012.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC FOR THE YEAR ENDED 30 JUNE 2014

We have audited the group and parent Company financial statements ("the financial statements") on pages 14 to 52. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on pages 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and the parent's affairs as at 30 June 2014 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC (continued) FOR THE YEAR ENDED 30 JUNE 2014

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2(b) to the financial statements concerning the company's and the group's ability to continue as a going concern. The group incurred a net loss of $764,207 during the year ended 30 June 2014 and as at that date had net liabilities of $5,925. These conditions, along with the other matters explained in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's and the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and the group were unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

…………………………….
MALCOLM PIROUET (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
Date 29 August 2014

ASX Additional Information

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 30 August 2014

(a) Distribution of CDI securities

Range of Units Snapshot **Composition : CDI**

Range	Total holders	Units	% of Issued Capital
1 - 1,000	290	165,924	0.18
1,001 - 5,000	335	947,312	1.03
5,001 - 10,000	193	1,578,439	1.71
10,001 - 100,000	350	12,095,043	13.11
100,001 - 9,999,999,999	95	77,462,101	83.97
Rounding			**0.00**
Total	**1,263**	**92,248,819**	**100.0**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.0000 per unit	0	0	0

(b) Substantial shareholders

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

Holder	Number of shares
Drake Private Investments	18,500,000
Bryant James Mclarty	6,938,398

ASX Additional Information (continued)

(c) Twenty largest CDI holders (ASX Code: SMN)

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

Rank	Name	Units	% of Units
1	DRAKE PRIVATE INVESTMENTS LLC	12,250,000	13.14
2	ANODYNE ELECTRONICS HOLDING CORP	7,237,920	7.76
3	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	6,938,398	7.44
4	DRAKE PRIVATE INVESTMENTS LLC	6,250,000	6.7
5	MR TOBY CHANDLER	5,854,947	6.28
6	CITICORP NOMINEES PTY LIMITED	4,056,885	4.35
7	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	3,522,082	3.78
8	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	2,520,000	2.7
9	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,427,268	2.6
10	MR STEPHEN CAMPBELL FORMAN	1,900,000	2.04
11	STRAIGHT LINES CONSULTANCY PTY LTD	1,855,643	1.99
12	MR MARTIN H MANN	1,025,000	1.1
13	AVANTEOS INVESTMENTS LIMITED <4358776 DEBRA A/C>	985,381	1.06
14	RICHARD CHARLES EVANS	923,941	0.99
15	MR DAVID MICHAEL BROWN <DB ENTERPRISES MANAGEMENT FUND>	800,000	0.86
16	MR ROSS MALCOLM SPENCER + MR CLINTON LEON SPENCER <SPENCER FAMILY SUPERFUND A/C>	771,907	0.83
17	LANDMARK CONSTRUCTION PTY LTD <MEYER SHIRCORE UNIT S/F A/C>	770,000	0.83
18	MR PAUL HARTLEY WATTS	650,000	0.7
19	KINETIC TRADE PTY LTD <THE SKINNER S/F A/C>	591,476	0.63
20	MR PAUL HARTLEY WATTS	550,000	0.59
Totals: Top 20 holders of CHESS DEPOSITORY INTEREST (TOTAL)		**61,880,848**	**66.36**
Total Remaining Holders Balance		**31,367,971**	**33.64**

ASX Additional Information (continued)

CORPORATE GOVERNANCE STATEMENT

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

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

Recommendation		***SMS current practice***
1.1	Companies should establish the functions reserved for the board and those delegated to senior executives and disclose those functions.	Satisfied. Board Charter is available at www.smsystems.com.au in the Corporate Governance Statement.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Satisfied. Board Performance Evaluation Policy is available at www.smsystems.com.au in the Corporate Governance Statement.
1.3	Companies should provide the information indicated in the *Guide to reporting on Principle 1*.	The Company is not aware of any departure from Recommendations 1.1 or 1.2. Performance evaluations for senior executives have taken place in the reporting period in accordance with the process disclosed. The specific responsibility of the Board is available at www.smsystems.com.au in the Corporate Governance Statement.
2.1	A majority of the board should be independent directors.	Satisfied.
2.2	The chair should be an independent director.	Not Satisfied. Given the size and nature of the Company, Mr Chandler is considered the most appropriate Director to act as Chairman.
2.3	The roles of chair and Chief Executive Officer should not be exercised by the same individual.	Not Satisfied. Given the size and nature of the Company, Mr Chandler is considered the most appropriate Director to act as Chairman and fulfil the functions of Chief Executive Officer in his capacity as Managing Director.
2.4	The board should establish a nomination committee.	Satisfied
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Satisfied. Board Performance Evaluation Policy is available at www.smsystems.com.au in the Corporate Governance Statement.
2.6	Companies should provide the information indicated in the *Guide to reporting on Principle 2*.	A description of the skills and experience of each of the current Directors is contained in the Director's report. Given the current size and structure of the Board, the Company has not fully complied with the Principle 2 of the ASX Principles. However, it will seek to do so as it develops and the Board grows. To facilitate independent decision making, the Board and any committees it convenes from time to time may seek advice from

		independent experts whenever it is considered appropriate. With the consent of the Chairperson, individual directors may seek independent professional advice, at the expense of the Company, on any matter connected with the discharge of their responsibilities. The policy for the appointment of new directors is set out on the Corporate Governance Statement on the Company's website.
3.1	Companies should disclose a code of conduct and disclose the code or a summary of the code as to: ▪ The practices necessary to maintain confidence in the company's integrity ▪ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders ▪ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Satisfied. The Code of conduct is available at www.smsystems.com.au in the Corporate Governance Statement.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	The Company is currently not in compliance with this recommendation. The Company does not currently have a separate policy specifically addressing achieving diversity. Due to the current size of the Board and expected workforce, the Board does not consider it necessary to have a gender diversity policy, but will consider adopting a policy in the future. The Company has adopted a code of conduct, which provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.
3.3	Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	The Company has not yet set the measurable objectives however these will be considered by the Board and disclosed in the annual report. In addition, the Board will review progress against any objectives identified on an annual basis.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	As at the date of this report, the Company's workforce profile includes: **Level** / **Male** / **Female** Directors / 5 / 0 Senior Executives / 0 / 0 Employees / 0 / 0 **Total** / **5** / **0**
3.5	Companies should provide the information indicated in the *Guide to reporting on Principle 3.*	The Company's diversity policy does not include any measurable objectives, if any, set by the Board; • progress against those objectives; and • the proportion of women employees in the whole organisation, at senior management level and at Board level.
4.1	The board should establish an audit committee.	Satisfied
4.2	The board committee should be structured so that it: ▪ Consists only of non-executive directors ▪ Consists of a majority of independent directors ▪ Is chaired by an independent chair, who is not chair of the board ▪ Has at least three members	Not satisfied. The Company has adopted a policy which includes Executive Directors as audit committee members.
4.3	The audit committee should have a formal charter.	Satisfied. Audit Committee charter is available at www.smsystems.com.au in the Corporate Governance statement.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	When the Company has grown to a sufficient size to warrant it, the Board will establish an audit and risk committee to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance.
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Satisfied. Continuous disclosure policy is available at www.smsystems.com.au in the Corporate Governance statement.

5.2	Companies should provide the information indicated in *Guide to reporting on Principle 5.*	The Company is not aware of any departure from Recommendations 5.1 or 5.2. A summary of the Company's policy on Continuous Disclosure is publicly available on the Company's website.
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of their policy.	Satisfied. Shareholders communication strategy is available at www.smsystems.com.au in the Corporate Governance statement.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	The Shareholder Communication Policy is publicly available on the Company's website.
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Satisfied. Risk management program is available at www.smsystems.com.au in the Corporate Governance statement.
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Satisfied. The Board routinely consider risk management matters.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Satisfied. The Board has received a section 295A declaration pursuant to the 2013 financial period.
7.4	Companies should provide the information indicated in *Guide to reporting on Principle 7.*	The Company is not aware of any departure from Recommendations 7.1, 7.2 or 7.3 although notes it is continuing to develop and refine its risk management and internal control processes.
8.1	The board should establish a remuneration committee.	Satisfied.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The structure of Directors' remuneration is disclosed in the remuneration report of the annual report.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The Board will distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives. The Company's Constitution also provides that the remuneration of non-executive Directors will not be more than the aggregate fixed sum determined by shareholders in general meeting.
8.4	Companies should provide the information indicated in the *Guide to reporting on Principle 8.*	When the Company has grown to a sufficient size to warrant it, the Board will establish a remuneration committee for the purposes of reviewing and approving the executive remuneration policy. As at the date of this statement, there are no schemes for retirement benefits for non-executive Directors.

CORPORATE GOVERNANCE STATEMENT (continued)

NOMINATION MATTERS

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

Name:
Michael Reveley (Chair)
Sam Wright
Toby Chandler

There were no meetings of the nomination committee.

AUDIT MATTERS

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

Name	No of meetings attended
Michael Reveley (Chair)	1
Sam Wright	1
Toby Chandler	1

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

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

REMUNERATION MATTERS

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

Name	No of meetings attended
Michael Reveley (Chair)	nil
Sam Wright	nil
Toby Chandler	nil

OTHER

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

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

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

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

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

Identification of Independent Directors and the Company's Materiality Thresholds

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

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

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

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

Statement concerning availability of Independent Professional Advice

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

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

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

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

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