

ASX ANNOUNCEMENT

ASX: SMN

20th June 2022

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Strategic Restructuring

Structural Monitoring Systems Plc (“SMN” or “the Company”) (ASX: SMN) is pleased to provide the following update.

On the 7th of March 2022, SMN announced that it had achieved a breakthrough FAA Certification for its CVM™ technology. The US Federal Aviation Administration (FAA) granted its authority to issue a Supplemental Type Certificate (STC) approval, for using CVM™. This marked an extraordinary milestone in aviation history, the first-ever in the world regulatory agency approved sensor technology validated and certified for detecting critical structural cracks on aircraft.

Anodyne Electronics Manufacturing Corporation (AEM), the wholly owned subsidiary of SMN, continues to significantly improve its financial position off the back of an already solid performance in challenging times.

Further, recent efforts by the SMN Executive Vice President Business Development have also been positive with a new top five US airline recently agreeing to a near term site visit.

To effectively capitalise on these opportunities and lock in a positive new direction, SMN, has:

- appointed further key experienced aerospace executives to the board and advisory teams
- changed the board structure effective immediately
- commenced the implementation of a new policy to progress commercialisation of **CVM™** via an integration with AEM.

With a CVM licencing-based integration with AEM’s existing infrastructure and expertise plus access to pre-existing AEM marketing and sales networks, the newly restructured board seeks to achieve key outcomes including:

- improved efficiency regarding personnel and staffing and associated cost reductions
- better real time meaningful interaction with potential Northern Hemisphere Aerospace clients,
- greater monitoring of realistic progress and increased accountability for that progress.
- faster and more effective paths to markets and sales.

The new SMN board is committed to making the commercialisation of CVM™ easier, faster and more cost effective.

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A new SMN board also intends to pursue policies to secure suitable positive outcomes for ALL shareholders, these include identification and implementation of:

- meaningful reductions in expenditure at SMN board and executive management level
- a change of name and branding to reflect the changing, diversified nature of the business
- engagement with potential partners in applicable industries outside of Aerospace via licencing arrangements of CVM™ technology
- realistic, achievable programmes to drive sales of CVM™ in FY23
- new governance policies, increased shareholder engagement and improved communications
- a roadmap to make SMN profitable

Board and Management Restructure

SMN policy is now focussed to ensure there is adequate experienced aerospace, manufacturing, financial, governance and ASX expertise on the board.

To this end AEM CEO, Brian Wall, has now agreed to join the board of SMN to facilitate the back-end integration of operation and sales of **CVM™** under the existing AEM umbrella.

Brian began his career as a commercial pilot before transitioning into senior management roles within the industry and has been instrumental in successfully positioning AEM for profitable growth importantly in several sectors not exposed to external inflationary pressures. Brian has successfully navigated the company through a tumultuous period during a global pandemic and overseen the move to AEM's new Kelowna facility.

His appointment follows that of experienced aerospace executive, Rick Deurloo, who was this month **elevated to President of Commercial Engines Business at American aerospace manufacturing giant, Pratt and Whitney**. This is a very senior position within the aerospace industry globally. His appointment represents an important addition to the SMN board. Mr Deurloo has more than 20 years of experience in management and sales in the global aerospace industry.

Pratt and Whitney are a significant player in the global aerospace sector with more than 38,000 customers in 180 countries globally and a reported revenue more than \$US 16 billion in 2017.

Recently, Mr Rick Tantalo also joined the team in a consulting capacity. Mr Tantalo has more than 35 years of experience in aircraft maintenance at United Airlines and a deep understanding of heavy maintenance on commercial aircraft. His experience, skills and procedural background are expected to enhance SMN's ability to identify new potential inspection areas for CVM™ implementation and broaden our commercialization capacity.

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SMN welcomes the appointments and the decades of experience and knowledge they bring to the SMN board and team.

Will Rouse, Toby Chandler and Stephen Forman have resigned, and the board wishes them well in their future endeavours. All outgoing directors and management have indicated a willingness to assist SMN with its future efforts and the board acknowledges and appreciates this.

Previous legal matters between SMN and Tulip Bay Pty Ltd are now concluded and will no longer be impeding company progress or draining capital, with the total of the latest and final award in line with what had been previously budgeted.

Bryant Mclarty, the new non-executive chair of SMN, has stated that he intends to develop policies that strengthen governance, reduce costs, increase shareholder engagement, redefine the brand in the near term and that he will push to get the company profitable.

Given the new policy related to the integration of AEM into CVM™ commercialisation, it is not the intention of the Company to recruit a new CEO in the near to mid-term. This policy will be constantly reviewed as commercialisation progresses. The board believes they and the AEM executive team have the necessary expertise to guide the company's growth for the foreseeable future in a more cost and time effective manner.

AEM continued strong financial performance

As noted in our previous quarterly update, Anodyne Electronics Manufacturing Corp (AEM) , figures for May continue the trend of increased activity within the AEM customer group and beyond with new business booked in May totaling \$1.595m against a target of \$1.375m. There was a strong lift in revenue in the March quarter with sales of \$4.33m against \$3.14m in the previous quarter. March revenue was \$1.90m, up 58% on March 2021, April revenue \$1.64m up 29% on April 2021 and revenue for May \$1.72m up 37% on May 2021. Forward looking sales are currently up 132%, at a pace not seen since pre COVID with a pipeline of Digital audio systems currently at \$7.7m.

In terms of staff numbers, AEM have increased their workforce by 17% so far this year, adding 16 new hires to the AEM team. They have also hired a new CFO which will further strengthen their finance team. AEM's new Kelowna (British Columbia) facility is close to fully operational with all 100 plus staff back onsite following a COVID interrupted 2020 and 2021. The new facility offers significant capacity to scale production for both AEM's product suite and CVM™ sensors and ancillary products.

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The certification of CVM™ sensors to detect cracks on aircraft is expected to meaningfully impact the industry maintenance inspection methods and significantly reduce operating costs for the industry at a time which has never been more important to the aviation industry globally.

The new AEM/CVM policy framework underscores the Board commitment to leveraging AEM's existing infrastructure (front and back office, production, R&D, sales and marketing) so that the considerable potential of CVM technology can be fully realised under the AEM structural umbrella.

SMN intends to capitalise on AEM's expertise and networks across the aerospace industry and to consolidate operations to reduce duplication of costs. Operationally, the current SMN Executive Vice President of Business Development will now report directly to the AEM CEO, further consolidating the integration of both entities.

The new policy as we transition **CVM™** towards full commercialization via AEM, will also see engagement with experienced external consultants, as identified by the SMN Executive Vice President of Business Development, assisting the development of realistic commercial validation packages for **CVM™** sensor technologies to be presented to airline executive teams.

Work is also being done to finalise realistic industry accepted pricing scenarios to ensure the technology is sufficiently valued in terms of benefit to the industry while also adhering to operators ROI requirements. The intention is to quickly progress the development of realistic costing models via industry focused external consultancy firms towards effectively communicating the economic benefits of implementing **CVM™** technology to airlines.

Focus remains on both the sale of sensors related to the WiFi application, along with continued work in pursuing the approval for use of CVM™ sensors for the B737 Aft Pressure Bulkhead inspection requirements.

Short-term sales efforts by the SMN Executive Vice President of Business Development have already begun to bear fruit with a major top five US airline having now agreed to a visit of their heavy maintenance facilities before June 30th to discuss SMN technology with on-site teams to help identify potential applications. This access would allow identification of several new inspections helping future commercialisation of **CVM™** sensors and a first step towards submission of a commercial proposal to the airline.

The proven ability of SMN via the granting of FAA certification to comply with significant rigorous compliance and testing regimes, opens an opportunity to also pursue relevant opportunities actively for licencing partners outside the aviation sector, including in areas such as construction, engineering, and infrastructure.

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The Board intends to expand further on the above in the next quarterly update in July 2022 and to meaningfully engage with shareholders to keep them more regularly informed of progress.

This announcement is authorised by the Board.

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