

ASX Announcement

ASX: SMN

28 April 2023

March 2023 Appendix 4C and Quarterly Update

Highlights

- Wholly owned subsidiary Anodyne Electronics Manufacturing Corp. (AEM) recorded an exceptional financial performance for the reporting period with gross revenue for the March quarter of \$5.86million versus \$5.36million the previous quarter up 9% and 35% higher than the March quarter the year prior
- AEM recorded the highest March sales figures in the Company's history and is on track to achieve the highest annual sales in its history as a company
- Gross revenue for the year to date is \$16.27million versus \$11.05million in the year prior up 47%
- Forward orders for the June quarter are currently sitting at \$4.81million indicating solid continued growth in the months ahead
- Normalised EBITDA for the year to date is \$2.67million versus \$2.03million up 32% on the year to date prior
- AEM recorded positive operating cashflow for the quarter of \$1.67million (\$1.05million for the Group)
- AEM received approval from the Japanese Civil Aviation Bureau (JCAB) following the development of its Safety Management System (SMS) which formalizes the acceptance of the delivery and installation of repairs products into the Japanese market

Structural Monitoring Systems Plc ("SMS" or "the Company") (ASX:SMN) is pleased to provide the following Quarterly Update summarising Group performance and prior releases lodged during the quarter ending 31 March 2023.

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SMS Group – Summary of Financial Overview and Operational Highlights

SMS continues to work closely with AEM personnel to integrate operations between the three entities, SMS, AEM and CVM™ to consolidate resources, improve efficiencies and to identify where additional resourcing and skill sets are required, in particular in relation to the commercialisation of the Company's CVM™ technology globally.

To that end, SMS Executive Chairman Ross Love has committed to regular travel to AEM's Kelowna base in British Columbia, Canada, to work with the broader team and to ongoing regular integrated meetings between key personnel from the various entities – in person and online – to ensure greater communication between different team members to ensure ongoing alignment of activities to achieve commercial goals.

Update on general operational activities and achievements for the quarter

AEM update

Wholly owned subsidiary, Anodyne Electronics Manufacturing Corp ("AEM") recorded significant sales revenue growth for the three months to 31 March 2023, with revenue up 9% on the prior quarter and up 35% compared to the same period the year prior.

This came off the back of the highest March revenue in the company's history.

AEM is now focused on driving Q4 performance projections and is on track to achieving the highest year in sales in its history as a company.

Forward orders for the June quarter are strong and amount to \$4.81million.

Normalised EBITDA for the year to date is \$2.67million up from \$2.03million or 32% on the year to date prior.

(Please note all figures above are unaudited per management accounts and stated in Australian dollars)

AEM's digital audio and avionics console product lines continuing to surge on projected sales growth numbers with production levels continuing to increase with an average 30% boost in output during Quarter 3 compared to the same period last year for each product.

AEM's Research and Development team remains focused on bolstering initiatives through key development and educational opportunities.

New product development remains a high priority for AEM, and the success of existing new product lines has created a strong foundation for derivative product development and strong targeted growth to continue.

Quarter 3 also marked AEM's approval by the Japanese Civil Aviation Bureau (JCAB) following the development of its Safety Management System (SMS). This approval formalizes the acceptance of the delivery and installation of repairs products into the lucrative Japanese market.

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Following productive meetings at the HELI-EXPO trade show in Atlanta, Georgia, AEM's sales team now gears up for a busy Spring and Summer travel season ahead, which includes stops at the AEA 2023 Conference and trade show in Orlando, as well as upcoming high-value business development trips to both Europe and Japan.

CVM™ Update

As mentioned above, the integration of the three entities continues to gain momentum with the AEM internal IT team now taking over hosting responsibility for the SMS website so that the digital presence of all three entities is now under the same roof.

The AEM IT team has created a separate and unique digital presence for the Company's patented CVM™ technology (cvm.aero.com) to provide updated information to the market and to streamline enquiries from prospective customers and industry players.

The Company continues to work closely with our commercial partners, Delta TechOps, in the ongoing commercial development of the CVM™ technology as a more efficient means of complying with crack detection requirements for the Aft Pressure Bulkhead (APB), on a specific set of Boeing 737 aircraft.

The Company provided an update in March regarding the first installation of CVM™ sensor kits on Delta aircraft at the AAR facility in Oklahoma in the United States.

As announced in March, the installation took place in front of representatives from Delta Airlines, Boeing, the Federal Aviation Administration (FAA) and AEM staff ahead of the FAA's consideration of the relevant service bulletin.

This installation follows the successful fitting of CVM™ sensor kits in 21 Delta aircraft more than 12 months ago.

Activities undertaken in tandem with the installation and testing include the revamping of Boeing's Service Bulletin drafts and associated documents ahead of the Boeing Structures Safety Council Meeting at the end of April.

CVM™ Chief Technical Officer Mr Trevor Lynch-Staunton P.Eng said the conclusion of testing in March provided further confirmation of the performance of the CVM™ technology and provided a strong basis for expansion to future applications.

Mr Lynch-Staunton added that the Delta Air Lines 737 Tail 3709 was at the Mexicana MRO facility in Mexico City for an H-check, where AEM staff trained the maintenance personnel and installed the Aft Pressure Bulkhead sensors at the end of April.

He said the APB certification is currently with Boeing as they review the data package in detail.

"A short test that will take 3-5 weeks is proposed to satisfy what should be the last of the concerns for Boeing's certification team before submitting to the FAA for approval," Mr Lynch-Staunton said.

That test is currently scheduled to start at the beginning of May.

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SMS expects to provide a further update on the expected timing of FAA approval following the completion of this short test period.

The critical approval from the FAA will establish CVM™ as an approved alternative to the current testing regime for all US operators of the relevant aircraft and is also recognised by other regulatory authorities around the world through bilateral agreements for the same purpose.

SMS Executive Chairman Ross Love and the CVM™ team continue to actively engage with other major US based operators including United Airlines which operates the second largest fleet of 737s for which the APB application is relevant.

Mr Love met with United's Senior Engineering and Maintenance team in February who are familiar with the technology and who are now engaged in fully understanding its commercial and engineering benefits.

As with Delta Air Lines, Mr Love and the team will be working with United to identify the next set of applications across their current and future narrow-body fleets.

A strong contingent from the CVM™ sales and engineering team, including Mr Love, attended the Aviation Week Events MRO Americas conference in Atlanta in April sharing the latest news and updates regarding the company's CVM™ structural monitoring technology with thousands of aviation industry representatives.

The event is attended by the industry's major players including Boeing, Delta Air Lines and Airbus and attracts key representatives from Airlines, OEMs, MRO Service Providers, Leasing Companies, Aviation Authorities and Regulators.

Corporate Update

As part of the ongoing process of better integrating the CVM™ business into the AEM entity, the Company continues to refine the role of SMS corporate – which includes regular and ongoing engagement with shareholders, various regulatory obligations in Australia, the UK and Canada and the Company's capital requirements moving forward.

Mr Love said the addition of Mr Heinrich Loechteken and Mr Milo Miletic to the SMS board, both suitably experienced aviation industry executives, continued to benefit the Company as it sets its strategic growth path with both new board members bringing significant experience, industry insight and skills to the table.

SMS will soon receive a brand refresh, updating its digital presence to align better with the other entities, with new brand colours already in use across company collateral.

As mentioned above, Mr Love has committed to regular travel to AEM's Kelowna base to work more closely with the CVM™ team and to meet with key prospective customers and personnel based in the US, Canada and Europe.

As announced in February, the Company's UK auditors attempted to resign without sufficient notice causing a temporary suspension from trading on the ASX that was beyond the Company's control.

This was rectified the following week (as announced on March 9) with the release of the Company's Half Yearly Report and Appendix 4D.

The Company are in discussions with a view to engaging a new auditor in the near future.

During the quarter the Company completed a change of bankers for AEM from HSBC Canada to Royal Bank of Canada (RBC). The quantum total of finance facilities remains unchanged at C\$5million but the

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varied repayment profile and the release of \$1.1million previously held as collateral security enables the Company to utilise current cash to progress the commercialisation of its CVM™ technology. The Group looks forward to a long productive relationship with RBC.

Appendix 4C Details

SMS consolidated cash-at-bank as at 31 March 2023 was \$2.55million.

Payments for Product Manufacturing and Operating Costs of \$2.83million represent wholly owned subsidiary AEM's expenditure allocated to manufacturing and operating.

Payments for Staff Costs of \$2.30million represent salaries for manufacturing, administration, sales and general management activities and directors' fees.

Payments for Administration and Corporate Costs of \$0.59million represent general costs associated with running the Company including ASX fees, legal fees, audit etc.

The aggregate amount of payments to related parties and their associates included in the March quarter cash flows from operating activities was \$130,679 in respect to fees paid to directors.

As stated above, the Group cash balance as at 31 March 2023 amounted to \$2.55million. Please refer to the attached Appendix 4C for further details on cash flows for the quarter.

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

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Appendix 4C

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

Name of entity

Structural Monitoring Systems Plc

ARBN

106 307 322

Quarter ended ("current quarter")

31 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,042	16,977
1.2 Payments for		
(a) research and development	(163)	(227)
(b) product manufacturing and operating costs	(2,826)	(7,154)
(c) advertising and marketing	(173)	(560)
(d) leased assets	-	-
(e) staff costs	(2,298)	(6,958)
(f) administration and corporate costs	(590)	(1,547)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(185)	(581)
1.6 Income taxes received/(paid)	-	-
1.7 Government grants and tax incentives	241	241
1.8 Other (Royalty fee and arbitration costs settlement)	-	(642)
1.9 Net cash from operating activities	1,048	(451)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(66)	(199)
(d) investments	-	-
(e) intellectual property ⁽¹⁾	(275)	(805)
(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (repayment of term deposit)	1,107	1,107
2.6	Net cash from investing activities	766	103
(1)	Capitalised R&D expenditure		
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	1,925
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(153)
3.5	Proceeds from borrowings	1,182	1,182
3.6	Repayment of borrowings	(634)	(634)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (repayments of ROU leases)	(244)	(708)
3.10	Net cash from financing activities	304	1,612
4.	Net increase in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	390	1,262
4.2	Net cash from/(used in) operating activities (item 1.9 above)	1,048	(451)
4.3	Net cash from investing activities (item 2.6 above)	766	103
4.4	Net cash from financing activities (item 3.10 above)	304	1,612

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9.months) \$A'000
4.5	Effect of movement in exchange rates on cash held	37	29
4.6	Cash and cash equivalents at end of period	2,545	2,545

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,545	853
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	(463)
5.4	Other	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,545	390

6. Payments to related parties of the entity and their associates		Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	131
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

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7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	5,508	5,447
7.3i Other (equipment lease finance)	3,278	3,278
7.3ii Other	-	-
7.4 Total financing facilities	8,786	8,725
7.5 Unused financing facilities available at quarter end		61
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>Royal Bank of Canada operating line of credit of C\$3.75million secured at 7.55% variable, no maturity date, reviewed annually.</p> <p>Royal Bank of Canada 8 year term loan of C\$1.25million secured at 6.78% fixed for 3 years.</p> <p>HSBC equipment lease facility of US\$2.2million, secured at various rates of between 2.61% and 4.41% fixed with a term of between 3-5 years according to the type of equipment financed.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from operating activities (item 1.9)	1,048
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,545
8.3 Unused finance facilities available at quarter end (item 7.5)	61
8.4 Total available funding (item 8.2 + item 8.3)	2,606
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	

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

Answer: N/A

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

Compliance statement

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

28 April 2023

Date:

By the Board

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

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Notes

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