

Company number 4834265



STRUCTURAL
MONITORING
SYSTEMS
plc

Structural Monitoring Systems Plc

Annual Report
2018



**STRUCTURAL
MONITORING
SYSTEMS**
plc

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Mr R. Michael Reveley
Executive Director

Mr Will Rouse
Executive Director

Mr Terry Walsh
Non Executive Director

OFFICERS

Mr Toby Chandler
Chief Executive Officer

Mr Sam Wright
Company Secretary

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STOCK EXCHANGE LISTING

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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).

LETTER TO SHAREHOLDERS

Dear Fellow Shareholder,

It is my pleasure to present the 2018 Annual Report for Structural Monitoring Systems Plc (“the Company”, “SMS”, ASX: SMN).

The past year has seen SMS achieve important new milestones, as the Company continued to build upon our status as the commercial “first-mover” in the global aerospace industry for SHM technology adoption. Management completed the strategic acquisition of our sensor and equipment manufacturer, Anodyne Electronics Manufacturing, based in Kelowna, Canada. This landmark transaction, supported overwhelmingly by shareholders, marked a clear and indisputable turning point for the Company. SMS is now dealing at arms-length, on a fully commercial basis, with the world’s most pre-eminent aerospace companies to fully assimilate CVM™ into the global aerospace industry. The acquisition of AEM created a turnkey, vertically integrated platform of 90+ personnel and 8 divisions – Sales, R&D, Finance, Human Resources, Quality Control, IT, Manufacturing and Maintenance/Repairs. Delta Air Lines, Inc. (“Delta”), and the other large commercial aerospace operators that are now targeting our technology for applications on their global fleet, demand the depth and breadth of operations that we now possess via the AEM acquisition. With the completion of this transaction, SMS has now migrated away from an R&D-focused, technology “silo” company and into a fully commercial platform which will unlock multiple opportunities enabling the Company’s CVM™ technology to realise its true value proposition.

In addition, there were several critical hires to the Board and Management team during the year designed to add depth and breadth of experience to the SMS platform. Mr. William (“Will”) Rouse, Executive Director, was hired to oversee the preliminary due diligence, commercial acquisition, financial integration and continued operations of AEM and has been indispensable to the success of the transaction. Will’s background as a Chartered Accountant and “serial entrepreneur” focused on highly specialised manufacturing-related businesses has allowed for a seamless integration of AEM and, importantly, provided the critical support necessary for SMS Management to maintain focus on the commercial roll-out of CVM™ technology with Delta and other global operators.

Mr. Richard (“Rich”) Poutier was hired as Executive Vice President of Global Sales and Marketing. Rich is a C-Suite level executive with a highly accomplished three-decade career track record of strategic and tactical leadership in the management of advanced technology aircraft and technical operations within the airline industry. In addition, he has proven expertise in negotiating airframe and engine maintenance MRO agreements, sales/trade agreements, purchase agreements and has cultivated key vendor, customer and government regulatory relationships. In the few months that Rich has been onboard, he has introduced multiple key, long-standing relationships with the senior management at the commercial divisions of the largest OEM’s and global operators. The addition of Rich was particularly well-timed given the co-marketing opportunities that Delta has established with their industry partners. Rich has quickly established a core group of large US and European operators, in addition to Delta, that are now in a position to drive the necessary approvals and adoption of CVM™ for their individual fleets and the industry at large. Rich is an invaluable addition to the SMS senior management team and we look forward to the future build-out of his global sales team to meet the rapidly growing opportunities for CVM™.

LETTER TO SHAREHOLDERS (CONTINUED)

Mr. Terry Walsh was hired as a Non-Executive Director Board Member, and as Head of Corporate and Legal Affairs. Terry is a highly experienced corporate counsel having led legal teams at such firms as Hancock Prospecting Pty Ltd and Rio Tinto Limited (Perth). Terry provides a key oversight role for the Company's corporate legal affairs including contract negotiations, IP enforcement and maintenance, regulatory oversight and corporate compliance. Terry's skill set is uniquely positioned to support the on-going commercial integration and the associated contract negotiations with the OEM's and operators as we execute on our business model.

I would like to thank the Board, senior management and SMS/AEM staff for their efforts over the past year. Similarly, the Board would like to thank SMS shareholders for their continued support and belief that the Company will achieve the key operational goals that have been established over the coming months. Now more than ever, I believe that the coming year will be a transformative one for SMS, as CVM™ is elevated to a new, and globally unique, commercial reality.



R. Michael Reveley

Executive Director

31st August 2018

STRATEGIC REPORT

REVIEW OF OPERATIONS

Structural Monitoring Systems Plc (ASX: SMN) has developed CVM™ or Comparative Vacuum Monitoring technology. This is a tested and fully-proven technology for in-situ, real-time monitoring of metal fatigue and structural faults in metal and composite materials in wide ranging industries including aviation, civil infrastructure, transportation, defence and construction.

CVM™ technology provides competitive advantages and flexibility in the design and application of structural monitoring systems. CVM™ systems:

- Are simple to install, lightweight and inert with long-term durability;
- Can be implemented in a range of sensor types and configurations to address structural fatigue and structural integrity health monitoring requirements;
- Can be installed in hard-to-access areas for inspection via a remote access point in minutes, reducing maintenance inspection costs and improvements in aircraft operational availability;
- Have fluidic sensors made from radar transparent materials that do not generate electromagnetic or acoustic emissions;
- Can detect and monitor cracks by direct measurement of pressure changes, avoiding complicated processing of complex sensor outputs used in other inspection techniques.

CVM™ is the only commercially-approved technology for "on-aircraft" applications involving cracking, and related structural fatigue, in the world, having been formally approved by Boeing and the US Federal Aviation Administration (FAA) in 2016.

Analysis Using Key Financial Performance Indicators and Milestones

At 30 June 2018, the Group had approximately \$3.4 million cash at bank, which is expected to enable the Group to achieve full licensing (or similar) based commercialisation of CVM™, achieving a cash-flow positive operational platform.

The Group recorded a loss for the financial year of \$3,894,697 (2017: \$1,379,518). The increase in loss was incurred due to share-based payment expenses of \$1,825,996 (2017: \$nil) and exceptional costs incurred in the acquisition of Anodyne Electronics Manufacturing Corp (AEM) during the year amounting to \$449,492. The Group also recorded revenue during the year as a result of the acquisition of AEM of \$7,436,679 (2017: \$309,347). Other key expenses during the year were consumables and raw materials used of \$4,623,425 (2017: \$188,772) and employee costs of \$1,507,392 (2017: \$nil) as a result of the acquisition of AEM (90+ staff).

The Group EBITDA* for the financial year was (\$3,651,023) (2017: (\$1,443,623)). EBITDA from AEM, acquired during the year was (\$161,443). Normalised EBITDA for AEM on a pro-forma basis for the 12 month period ended 30 June 2018 was approximately \$1.8m in line with the prior year.

Loss per share for the financial year was 3.55 cents per share (2017: Loss per share 1.35 cents).

At the reporting date the Group had net assets of \$13,477,443 (2017: \$2,632,927). As a result of the acquisition of AEM the Group had trade receivables of \$2,867,156, inventory of \$4,709,788 and intangible assets of \$3,853,276, including goodwill of \$1,386,794.

*EBITDA, which is inclusive of FX gains, is calculated by adding back interest costs, depreciation and amortisation expenses and deducting income tax benefit and interest revenue from loss after tax for the year of \$3,894,697.

STRATEGIC REPORT

REVIEW OF OPERATIONS (CONTINUED)

Analysis Using Other Key Performance Indicators and Milestones

SMS Canada/AEM Overview

Following its acquisition of Anodyne Electronics Manufacturing Corporation (“AEM”) in December 2017, SMS now fully controls and oversees the critical manufacturing, engineering, R&D and quality assurance functions related to the Company’s CVM™ technology platform, coinciding with the commencement of SMS’s full global commercial rollout of CVM™ to major aerospace OEMs and airlines.

As expected during the pre-acquisition due diligence process, AEM’s operations are fully on-track with financial performance in line with expectations and above same period results for the prior year. Revenue for the period 8 December 2017 to 30 June 2018 was CA\$7.4m v CA\$7.2m for the corresponding period in the prior financial year (+2.8%).

AEM has now completed the previously announced expansion of the clean-room to significantly increase CVM™ manufacturing capacity. Pre-expansion production capability was limited to approximately 500-600 sensors per month, due primarily to a lack of clean-room capacity and production floor area. The Company has now increased sensor production capacity to, initially, circa-2,000 sensors per month by significantly expanding the footprint area of the production clean-room, and the ability to house more technical lab staff. Further, the Company will be hiring additional Senior Engineers, as well as production and logistics staff, to directly support Trevor Lynch-Staunton, SMS Chief Technical Officer. These hires are expected to be completed in the current quarter, while multiple lab staff will be identified and hired in the coming months as CVM™ equipment demand dictates.

The extremely favourable operational leverage enjoyed by SMS means that any future material production capacity expansion, as and when required, can be executed within very short time frames, and at minimal capital cost. While present sensor output capacity is significant, the Company is nevertheless engaged in detailed and ongoing review of all platform operations to ensure that potential supply bottlenecks are eliminated, parts inventory levels remain favourable and sustainable, and that full redundancy, where possible, is achieved with respect to all key suppliers, parts procurement etc. This will ensure optimal, and continuous, production peak thresholds are maintained, and can be rapidly increased when required in coming quarters.

SMS/Delta Operational Progress

SMS is pleased to report that the process of identification, submission and formal approval for multiple CVM™ equipment applications, on multiple aircraft types, has progressed significantly. Delta has now submitted formal approval requests to Boeing authorizing the use of CVM™ as a full alternative means of inspection for multiple applications on the B757 and B737 aircraft types. Additionally, during July 2018, Delta also formally submitted approval requests to Airbus for multiple CVM™ applications on the A318, A319, A320, A321 and A330 aircraft types.

Delta and SMS have prioritized the B757 applications for expedited approval due to Delta’s maintenance scheduling which will see most of their B757 fleet “in-hangar” beginning in early Q4-2018, and fully available for necessary CVM™ installations. Currently, Delta operates 111 B757 aircraft, while, just in the US, American, United, FedEx and UPS operate over 300 additional B757 aircraft. SMS, Delta and Sandia Laboratories have co-developed a validation, and CVM™ sensor design, plan to achieve formal approval for CVM™ as an alternative means of inspection on Delta’s B757 fleet. The validation plan, and related CVM™ “kit”, will be submitted to Boeing for review and approval in the next few days. Initial meetings with Boeing engineers overseeing the B757 aircraft (Aviation Representatives) were completed in June to review the Delta CVM applications and the preliminary CVM designs.

STRATEGIC REPORT

REVIEW OF OPERATIONS (CONTINUED)

Analysis Using Other Key Performance Indicators and Milestones (continued)

SMS/Delta Operational Progress (continued)

The primary commercial outcome sought by the parties is to provide Delta with the required CVM™ kits, and installation approval, for on-fleet installs well prior to year-end.

In regard to Boeing's B737-NG aircraft applications, one specific application is a particularly difficult, time-consuming and out-of-cycle inspection burden for global operators of this aircraft type, and therefore this application represents a significant commercial opportunity for SMS given the great number of B737-NG aircraft in service globally. The ability to use CVM™ sensors to eliminate downtime caused by a multi-day inspection, coupled with a short repeat inspection interval cycle, represents an attractive business case for the operators. SMS personnel have initialised the sensor design work and validation protocols for this application, with the goal of achieving the requisite OEM (and subsequent regulatory) approvals to follow in close sequence to the approval of the B757 applications.

Global Marketing Update and Outlook

The Company's strategic plan of developing a formal outreach programme with some of the largest global operators to introduce CVM™ technology to key engineering, maintenance and senior management personnel has accelerated with the hiring of Rich Poutier. Multiple meetings have been held, with others scheduled, and feedback/progression has been positive while formal follow-up, continuous engagement is ongoing. The combination of factors such as aircraft type, average fleet age, cycles completed etc are unique to each operator. Therefore, the Company's engagement with each airline to review the specific needs of their respective fleets to investigate all potential applications for CVM™ is a key priority.

SMS has also implemented a strategy to formally engage with key commercial personnel at the major aircraft OEMs to push for holistic and partnered approval and adoption of CVM™ given the clear advantages gained via CVM™ deployment to maximize aircraft utilization for their respective key airline operator customers, such as Delta. Materially lower operating costs, and corollary higher fleet-wide utilization rates, are key selling points for the OEMs in recognizing the clear advantages successful CVM™ installation maintains over the incumbent inspection methodologies.

Finally, to gain maximum industry leverage with respect to adoption, SMS/Delta/Sandia and other airline counterparts are in the formative stages of establishing a key aerospace industry working group/ steering committee comprised of key commercial and engineering personnel at major global airline operators to establish the framework for, and promote, the accelerated and holistic adoption of CVM™ across the global civil aviation fleet.

Principal Risks and Uncertainties

The principal risks and how they are managed are set out on page 16 of the Director's Report.



Toby Chandler
Chief Executive Officer
31st August 2018

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2018.

DIRECTORS AND OFFICERS

The names of the Company's directors and officers in office during the year and until the date of this report are as below.

Directors and officers were in office for this entire period unless otherwise stated.

R. Michael Reveley (Executive Director)

Mr Reveley served as a managing partner, chief executive and co-CIO 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 CIO 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 US\$20bn derivatives portfolio.

Will Rouse (Executive Director) appointed 8 November 2017

Will is an experienced senior banker, finance executive and "serial entrepreneur" focused on the acquisition and optimised growth of specialised manufacturing-related businesses. In his last role, Will acquired Simcro Ltd ("Sicro") in 2007, a New Zealand-based export-manufacturer. Will sold his majority stake in Simcro in 2013 to The Riverside Company, a New York private equity group, retaining a 20% shareholding. Simcro then acquired two further operating businesses in NZ and Australia in 2015, with Will leading these acquisitions. Simcro was recently sold to a global multinational. Will is a Chartered Accountant and remains on the Board of Simcro.

Terry Walsh (Non-Executive Director) appointed 4 April 2018

Mr. Walsh is a highly experienced corporate counsel having led legal teams at such firms as Hancock Prospecting Pty Ltd and Rio Tinto Limited (Perth). Mr. Walsh runs a private consultancy company, providing Board, commercial, business development and corporate advisory services. He will provide a key oversight role for the Company's corporate legal affairs including contract negotiations, IP enforcement and maintenance, regulatory oversight and corporate compliance, and any future civil interactions.

Admission: Supreme Court of Western Australia in February 1995.

Mr Walsh currently serves as a Non-Executive Director of Nanollose Limited. During the last 3 years Mr Walsh has also been a Non-Executive Director of Hazer Group Limited.

Andrew Chilcott (Non-Executive Director) resigned 4 April 2018

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.

DIRECTORS' REPORT (CONTINUED)

Ray Lewis (Non-Executive Director) resigned 8 November 2017

Mr Lewis is the Vice President of Business Development and “2IC” in Anodyne Electronics Manufacturing Corp's executive team. AEM designs, manufactures and market its own line of aviation communication equipment, it also utilizes its expertise in these areas under contract with several OEMs.

Ray's major activities and responsibilities include business and product development, sales & marketing, OEM account development, and contracts management. Ray began his aviation career with Northern Airborne Technology (NAT) in 1981, at their original location in Prince George, BC. His next four years were spent working on a variety of helicopters all over western Canada and the US, doing new avionics installations and upgrades of the early generation NAT audio controllers and other unique NAT products. After a 4 year stint at Kelowna Flightcraft, Ray returned to the NAT team. The next 20+ years were a time of major growth for NAT, which provided him the opportunity to take on a variety of roles including Product Support, System Design & Integration, QA Manager, Operations Manager and eventually on to Sales, Marketing and Business Development roles. Ray held the title of Director of International Business Development for NAT at the time of their closure in late 2010.

Toby Chandler (Chief Executive Officer)

Mr Chandler is Co-Founder and Chief Investment Officer of SEAL Capital Ltd, a global macro hedge fund investing in diverse global markets and financial instruments. Before forming SEAL Capital, Mr Chandler was a Partner and Portfolio Manager with private equity and macro hedge fund, Seagate Global Advisors, Inc.

In prior roles, Mr Chandler was a Managing Director with Morgan Stanley Inc, New York, where he ran the Bank's Specialist Hedge Fund Desk servicing key institutional counterparties in an array of financial products, and global 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.

Sam Wright (Company Secretary)

Mr Wright has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, and shareholder relations with both retail and institutional investors.

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

He is the Managing Director of Western Australian based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies.

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the consolidated entity consisted of the design and manufacture of electronic products and the provision of manufacturing services to the aviation industry.

DIRECTORS' REPORT (CONTINUED)

SHAREHOLDER MEETINGS

Structural Monitoring Systems Plc held its Annual General Meeting of Shareholders at Holding Redlich, Level 65, 19-29 Martin Place, Sydney, New South Wales on 7th December 2017 at 3.45pm ADST.

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

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.

INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

DIRECTORS' REPORT (CONTINUED)

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date the company issued 450,000 Chess Depositary Interests (CDI's), 450,000 Performance Rights and 5,000,000 Performance shares following shareholder approval at an extraordinary general meeting held on 7 August 2018.

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.

RESULTS AND DIVIDEND

The operating loss, after income tax, for the year was \$3,894,697 (2017: \$1,379,518). No dividends were proposed or paid during the financial year.

SHARE CAPITAL

The impact on share capital and share premium account of the share issues in the year, is disclosed in note 24 to the Financial Statements.

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:

Director	Board meetings		Audit committee		Remuneration committee	
	A	B	A	B	A	B
R M Reveley	2	2	-	-	-	-
W Rouse	-	-	-	-	-	-
T Walsh	-	-	-	-	-	-
A Chilcott	2	2	-	-	-	-
R Lewis	2	2	-	-	-	-

A – Number of meetings attended

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

RESEARCH AND DEVELOPMENT

The Group actively reviews technical developments in its markets with a view to taking advantage of the opportunities available to maintain and improve its competitive position. This action involves the design and development of structural health monitoring systems applicable to the aviation industry.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT

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:

30 June 2018	Salary & Fees		Post Employ- ment	Share-based payments	Total
	Cash	Shares	Superannu- ation	Shares	
	\$	\$	\$	\$	
Directors					
R. Michael Reveley	149,272	28,888*	-	-	178,160
Will Rouse ⁽¹⁾	77,425	-	-	146,900	224,325
Andrew Chilcott ⁽²⁾	28,125	-	-	-	28,125
Terry Walsh ⁽³⁾	28,714	-	2,728	-	31,442
Ray Lewis ⁽⁴⁾	15,726	-	-	-	15,726
Executives					
Toby Chandler	202,500	-	-	-	202,500
Total	501,762	28,888	2,728	146,900	680,278

30 June 2017	Salary & Fees		Post Employ- ment	Share-based payments	Total
	Cash	Shares	Superannu- ation	Shares	
	\$	\$	\$	\$	
Directors					
R. Michael Reveley	139,305	59,702	-	-	199,007
Andrew Chilcott ⁽²⁾	19,950	28,085	-	-	48,035
Ray Lewis ⁽⁴⁾	21,774	-	-	-	21,774
David Veitch ⁽⁶⁾	-	-	-	-	-
Executives					
Toby Chandler ⁽⁵⁾	180,000	-	-	-	180,000
Total	361,029	87,787	-	-	448,816

⁽¹⁾ Appointed 8 November 2017

⁽²⁾ Resigned 4 April 2018

⁽³⁾ Appointed 4 April 2018

⁽⁴⁾ Appointed 10 October 2016, resigned 8 November 2017

⁽⁵⁾ Resigned on 10 October 2016 as Managing Director and remains Chief Executive Officer

⁽⁶⁾ Resigned 10 October 2016

*Shares earned as per terms of employment agreement and issued at AGM following shareholder approval.

The remuneration policy of the Group is outlined in note 31 (b) in the Notes to the Financial Statements.

DIRECTORS' REPORT (CONTINUED)

OPTIONS GRANTED AS COMPENSATION (WITHOUT PERFORMANCE CONDITIONS)

No options over ordinary shares (without performance conditions) in the Group were granted as incentives to directors or employees during the reporting period.

No shares were issued on exercise of remuneration options.

PERFORMANCE RIGHTS GRANTED AS COMPENSATION (WITH PERFORMANCE CONDITIONS)

Directors

On 7 December 2017 shareholders approved the issue of 1,725,000 Performance Rights (PRs) (and the issue of shares following the vesting of those Performance Rights) to Directors.

Tranche 1 Rights do not have any vesting conditions or share price barriers. Consequently the Tranche 1 Rights were issued as CDIs on the issue date. Tranches 2 to 7 vest based on the attainment of share price barriers within 3 years of grant date.

The following Director PRs were issued during the year:

Directors	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Total
R. Michael Reveley	200,000	200,000	200,000	100,000	25,000	25,000	50,000	800,000
Andrew Chilcott ⁽¹⁾	-	200,000	25,000	25,000	25,000	25,000	-	300,000
William Rouse	-	400,000	50,000	50,000	25,000	50,000	50,000	625,000
Totals	200,000	800,000	275,000	175,000	75,000	100,000	100,000	1,725,000

⁽¹⁾ Resigned 4 April 2018

100,000 of the Tranche 2 Rights granted to Andrew Chilcott and 200,000 of the Tranche 2 Rights granted to William Rouse, in addition to achieving the share price barrier, have an additional time-based hurdle of 12 months from grant date. Performance rights issued to Andrew Chilcott lapsed following his resignation.

Executives

On 29 December 2017 the Board granted the issue of the following Performance Rights to Toby Chandler (CEO) under the Company Employee Incentive Plan:

Tranche 1 Rights do not have any vesting conditions or share price barriers. Consequently the Tranche 1 Rights were issued as CDIs on the issue date. Tranches 2 to 7 vest based on the attainment of share price barriers within 3 years of grant date.

Executives	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Total
Toby Chandler (CEO)	450,000	450,000	400,000	150,000	150,000	125,000	125,000	1,850,000

DIRECTORS' REPORT (CONTINUED)

Vesting of performance rights

On 7 December 2017 R. Michael Reveley was granted 200,000 performance rights which immediately converted to shares at an exercise price of 0.5 pence per performance right. The share price on grant date was AU\$1.47 resulting in a notional gain of AU\$292,300.

On 29 December 2017 Toby Chandler was granted 450,000 performance rights which immediately converted to shares at an exercise price of 0.5 pence per performance right. The share price on grant date was AU\$1.27 resulting in a notional gain of AU\$569,925.

SERVICE AGREEMENTS

Remuneration and other terms of employment for Directors and executives are formalised in service agreements. Details of these agreements are as follows:

Name: R. Michael Reveley
Title: Managing Director and Chairman
Agreement commenced: 28 February 2018
Term of agreement: no fixed term
Details: Base salary of US\$125,000 to be reviewed annually by the Remuneration Committee.

Name: Will Rouse
Title: Executive Director
Agreement commenced: 8 November 2017
Term of agreement: no fixed term
Details: Base salary of AU\$120,000, to be reviewed annually by the Remuneration Committee.

Name: Terry Walsh
Title: Non-Executive Director & General Counsel
Agreement commenced: 4 April 2018
Term of agreement: no fixed term
Details: Base salary AU\$115,000 inclusive of superannuation, to be reviewed annually by the Remuneration Committee. 50,000 shares in the Company to be issued, subject to shareholder approval. 150,000 performance rights to be issued, subject to shareholder approval and subject to the attainment of specified share price hurdles. A discretionary bonus of up to \$100,000 payable in cash and/or shares of the company, related to demonstrable achievement in performance of duties. The award of such bonus will be at the sole discretion of the CEO and the Board of directors. Includes non-compete clause and subject to termination notice of 1 month notice by the director and 2 months notice by the company.

Name: Toby Chandler
Title: Chief Executive Officer
Agreement commenced: 12 December 2015
Term of agreement: no fixed term
Details: Base salary of AU\$225,000 to be reviewed annually by the Remuneration Committee.

Directors and executives have no entitlement to termination payments in the event of removal for misconduct.

DIRECTORS' REPORT (CONTINUED)

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVES

	Date appointed	Ordinary shares No.	Performance rights No.	Ordinary shares under option No.
Directors				
R. Michael Reveley	3 December 2012	2,944,352	600,000	-
Will Rouse	8 November 2017	100,000	625,000	-
Terry Walsh	4 April 2018	50,000	150,000	-
Executives				
Toby Chandler	10 October 2016	2,016,186	1,400,000	-
Total		5,110,538	2,775,000	-

The above relates to share, performance rights and options holdings as at the date of this report.

END OF REMUNERATION REPORT

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.

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 2019. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2018, the Group's trade creditors represented 36 days' purchases (2017: 10 days).

FINANCIAL POSITION

At the reporting date the net assets of the Group were \$13,477,443 (2017: \$2,632,927).

DIRECTORS' REPORT (CONTINUED)

FINANCIAL INSTRUMENTS AND RISKS

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 25 to the Financial Statements.

As a result of operations in United Kingdom, Canada, USA and Australia, the Group's assets and liabilities can be affected by movements in the UK£/A\$, CAD\$/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 Group is exposed to foreign currency risk following the acquisition of a Canadian-based subsidiary and 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 once the review is complete.

The Group has a reliance on one customer at the present time. The customer accounts for \$4.4 million of revenues totalling \$7.4 million. The relationship with the customer is secured by a licence agreement and the Group is pursuing growth opportunities.

By order of the Board



R. Michael Reveley

Executive Director

31st August 2018

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated		Parent	
		2018 \$	2017 \$	2018 \$	2017 \$
Continuing operations					
Revenue					
Sales		7,436,679	309,347	-	-
Cost of sales		(5,082,018)	(188,772)	-	-
Gross profit		2,354,661	120,575	-	-
Other income	4	144,383	2,535	-	-
Depreciation and amortisation	4	(314,682)	-	-	-
Employee expense	6	(1,507,392)	-	-	-
Impairment charges		-	-	(3,795,458)	(1,128,704)
Occupancy expenses		(6,739)	(11,673)	-	(1,288)
Research and development expenses		(163,141)	(82,079)	-	-
Sales and marketing		(98,572)	-	-	-
Share-based payment expense	23	(1,825,996)	-	-	-
Administrative expenses		(2,288,395)	(1,472,981)	(235,976)	(249,526)
Operating loss before exceptional items		(3,705,873)	(1,443,623)	(4,031,434)	(1,379,518)
Exceptional items	5				
Legal and professional fees		(302,592)	-	-	-
Share-based payment	23	(146,900)	-	-	-
		(449,492)	-	-	-
Operating loss before finance costs and tax		(4,155,365)	(1,443,623)	(4,031,434)	(1,379,518)
Finance income/(costs)		(2,943)	64,105	-	-
Foreign exchange gains		189,660	-	-	-
Income tax benefit	7	73,951	-	-	-
Loss after finance costs and tax from continuing operations		(3,894,697)	(1,379,518)	(4,031,434)	(1,379,518)
Loss attributable to members of the parent		(3,894,697)	(1,379,518)	(4,031,434)	(1,379,518)
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation		(136,737)	-	-	-
Total comprehensive loss for the year		(136,737)			
Loss for the year attributable to owners of Structural Monitoring Systems Plc		(4,031,434)	(1,379,518)	(4,031,434)	(1,379,518)

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2018

		Consolidated	
		2018	2017
Loss per share (cents per share)			
Basic for loss from continuing operations	8	(3.55)	(1.35)
Diluted for loss from continuing operations	8	(3.55)	(1.35)

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	Consolidated		Parent	
		2018	2017	2018	2017
		\$	\$	\$	\$
Assets					
Non-current assets					
Loans to subsidiaries	15	-	-	13,525,041	2,647,302
Plant and equipment	12	536,830	-	-	-
Intangible assets and goodwill	13	3,853,276	-	-	-
Deferred tax	14	107,061	-	-	-
Total non-current assets		4,497,167	-	13,525,041	2,647,302
Current assets					
Trade receivables	9	2,867,156	9,497	-	-
Other receivables	10	285,371	14,653	-	-
Inventory	11	4,709,788	-	-	-
Cash and cash equivalents		3,390,236	2,943,623	-	-
Total current assets		11,252,551	2,967,773	-	-
Total assets		15,749,718	2,967,773	13,525,041	2,647,302
Liabilities					
Current liabilities					
Trade and other payables	16	1,462,776	334,846	47,598	14,375
Borrowings	17	139,646	-	-	-
Provisions	18	133,045	-	-	-
Total current liabilities		1,735,467	334,846	47,598	14,375
Non-current liabilities					
Deferred tax	19	536,808	-	-	-
Total non-current liabilities		536,808	-	-	-
Total liabilities		2,272,275	334,846	47,598	14,375
Net assets		13,477,443	2,632,927	13,477,443	2,632,927

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2018

	Note	Consolidated		Parent	
		2018 \$	2017 \$	2018 \$	2017 \$
Equity					
Equity attributable to equity holders of the parent					
Issued capital	24	31,926,515	31,867,455	31,926,515	31,867,455
Share premium reserve	24	34,919,253	22,069,759	34,919,253	22,069,759
Accumulated losses		(51,473,583)	(49,033,286)	(51,610,320)	(48,994,046)
Other reserves	24	(1,894,742)	(2,271,001)	(1,758,005)	(2,310,241)
Total equity		13,477,443	2,632,927	13,477,443	2,632,927

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

Approved by the Board and authorised for issue on 31st August 2018



.....
R. Michael Reveley, Executive Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated		Parent	
		2018 \$	2017 \$	2018 \$	2017 \$
Cashflows from operating activities					
Receipts from customers		7,571,649	299,850	-	-
Other income		-	64,105	-	-
Payments to suppliers and employees		(8,522,362)	(1,337,028)	(202,753)	(208,863)
Interest received		1,782	-	-	-
Interest paid		(4,725)	-	-	-
Net cash used in operating activities before tax paid	20(a)	(953,656)	(973,073)	(202,753)	(208,863)
Income tax paid		(246,552)	-	-	-
Net cash used in operating activities		(1,200,208)	(973,073)	(202,753)	(208,863)
Cashflows from investing activities					
Payments for plant and equipment		(217,079)	-	-	-
Net cash paid on acquisition of subsidiary		(10,998,750)	-	(10,998,750)	-
Net cash used in investing activities		(11,215,829)	-	(10,998,750)	-
Cashflows from financing activities					
Proceeds from issue of shares		13,000,000	453,764	13,000,000	453,764
Issue costs		(231,625)	-	(231,625)	-
Loans to subsidiaries		-	-	(1,566,872)	(244,901)
Net cash provided by financing activities		12,768,375	453,764	11,201,503	208,863
Net increase/(decrease) in cash held		352,338	(519,309)	-	-
Cash and cash equivalents at beginning of year		2,943,623	3,460,397	-	-
Effect of foreign exchange on balances		(45,371)	2,535	-	-
Net cash and cash equivalents at end of year	20(b)	3,250,590	2,943,623	-	-

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

Cash flows arising on acquisition of a subsidiary

On 8 December 2017 the Group acquired a 100% holding in Anodyne Electronics Manufacturing Corp for a cash consideration of CAD\$10,401,970. At that date, the net assets of the subsidiary included in the consolidated statement of financial position are as follows:

	\$
Trade receivables	3,025,709
Inventory	4,634,395
Prepayments and other receivables	180,427
Property, plant and equipment	444,165
Intangible assets	2,691,926
Trade and other payables	(486,661)
Deferred tax liability	(800,830)
Provision for income tax	(93,326)
Fair value of identifiable net assets acquired	<u>9,595,805</u>
Goodwill	<u>1,402,945</u>
Total consideration in cash flows from investing activities	<u>10,998,750</u>

Consideration transferred

Acquisition date fair value of the consideration transferred

	\$
Cash paid on settlement	10,353,560
Working capital adjustment paid subsequent to acquisition (i)	645,190
Total consideration	<u>10,998,750</u>

- (i) Calculated as being the difference between net working capital on acquisition and the agreed target net working capital of CAD\$5.6 million at settlement.

Other cash-settled acquisition costs incurred to the reporting date amounting to \$302,592 have been expensed under cashflows from operating activities

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Issued capital \$	Accumulated losses \$	Share premium reserve \$	Share-based payments reserve \$	Foreign currency translation reserve \$	Total \$
Consolidated						
At 1 July 2016	31,863,592	(48,225,326)	21,351,677	571,558	(2,271,001)	3,290,500
Loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Total comprehensive loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Transactions with owners:						
Issue of share capital	3,863	-	718,082	-	-	721,945
Total transactions with owners	3,863	-	718,082	-	-	721,945
Transfer of reserve to accumulated losses	-	571,558	-	(571,558)	-	-
At 30 June 2017	31,867,455	(49,033,286)	22,069,759	-	(2,271,001)	2,632,927
At 1 July 2017	31,867,455	(49,033,286)	22,069,759	-	(2,271,001)	2,632,927
Loss for the year	-	(3,894,697)	-	-	-	(3,894,697)
Foreign currency translation	-	-	-	-	(136,737)	(136,737)
Total comprehensive loss for the year	-	(3,894,697)	-	-	(136,737)	(4,031,434)
Transactions with owners:						
Issue of performance rights	-	-	-	1,380,096	-	1,380,096
Conversion of performance rights	3,250	863,850	-	(867,100)	-	-
Issue of shares	3,810	590,550	433,119	-	-	1,027,479
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(531,625)	-	-	(531,625)
Total transactions with owners	59,060	1,454,400	12,849,494	512,996	-	14,875,950
At 30 June 2018	31,926,515	(51,473,583)	34,919,253	512,996	(2,407,738)	13,477,443

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2018

	Issued capital \$	Accumulated losses \$	Share premium reserve \$	Share-based payments reserve \$	Foreign currency translation reserve \$	Total \$
Parent						
At 1 July 2016	31,863,592	(48,186,086)	21,351,677	571,558	(2,310,241)	3,290,500
Loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Total comprehensive loss for the year	-	(1,379,518)	-	-	-	(1,379,518)
Transactions with owners:						
Issue of share capital	3,863	-	718,082	-	-	721,945
Total transactions with owners	3,863	-	718,082	-	-	721,945
Transfer of reserve to accumulated losses	-	571,558	-	(571,558)	-	-
At 30 June 2017	31,867,455	(48,994,046)	22,069,759	-	(2,310,241)	2,632,927
At 1 July 2017	31,867,455	(48,994,046)	22,069,759	-	(2,310,241)	2,632,927
Loss for the year	-	(4,031,434)	-	-	-	(4,031,434)
Foreign currency translation	-	-	-	-	-	-
Total comprehensive loss for the year	-	(4,031,434)	-	-	-	(4,031,434)
Transactions with owners:						
Issue of performance rights	-	-	-	1,380,096	-	1,380,096
Conversion of performance rights	3,250	863,850	-	(867,100)	-	-
Issue of shares	3,810	590,550	433,119	-	-	1,027,479
Placement	52,000	-	12,948,000	-	-	13,000,000
Share issue costs	-	-	(531,625)	-	-	(531,625)
Transfer of reserve to accumulated losses	-	(39,240)	-	-	39,240	-
Total transactions with owners	59,060	1,415,160	12,849,494	512,996	39,240	14,875,950
At 30 June 2018	31,926,515	(51,610,320)	34,919,253	512,996	(2,271,001)	13,477,443

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1 CORPORATE INFORMATION AND AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements of Structural Monitoring Systems Plc for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 31 August 2018 and the statements of financial position were signed on the Board's behalf by Michael Reveley.

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 and are rounded to the nearest Australian dollar. The average AUD:GBP rate for the year was 0.5762 (2017: 0.5944) and the reporting date AUD:GBP spot rate was 0.5640 (2017: 0.5908). The average AUD:CAD rate for the period 8 December 2017 to 30 June 2018 was 1.0156 and the reporting date AUD:CAD spot rate was 1.0234.

(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. The directors consider the going concern basis of accounting to be appropriate based on forecast cash flows and have confidence in the Group's ability to raise additional funds, if required.

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 the Group entity do not continue as going concerns.

(c) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as they apply to the financial statements of the Group for the year ended 30 June 2018 and are applied in accordance with the Companies Act 2006. 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. See note 2(d) and 2(aa) for further consideration.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Accounting standards and Interpretations

International financial reporting standards as adopted by the European Union (EU)

The Group has adopted all of the new or amended standards and interpretations issued by the EU that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following standards and interpretations are most relevant to the Group:

IFRS 2016-1 Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses

The Group has adopted IFRS 2016-1 from 1 July 2017. The amendments to IAS 12 clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

IFRS 2016-2 Amendments to IAS 7 - Disclosure Initiative

The Group has adopted IFRS 2016-2 from 1 July 2017. The amendments to IAS 7 'Statement of Cash Flows' require the disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. See note 21 Liabilities arising from financing activities for details.

IFRS 2017 Amendments to IAS 12 - Further Annual Improvements 2014-2016 Cycle

The Group has adopted IFRS 2017-2 from 1 July 2017. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' clarify that the disclosure requirements of IFRS 12 (other than the requirements for summarised information for subsidiaries, joint ventures and associates) apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners, or discontinued operations in accordance with *IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'*.

(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 is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Basis of consolidation (continued)

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 at the end of 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.

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 companies in the Group 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 and the functional currency of its overseas subsidiary, Anodyne Electronics Manufacturing Corp is Canadian 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency translation (continued)

(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.

(g) Impairment 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.

(h) Trade and other receivables

Trade and other 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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.

(j) 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.

(k) Share-based payment transactions

The Group provides benefits to employees (including 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 and binomial pricing models.

There is currently one plan in place to provide these benefits, the Employee Incentive Plan (EIP), 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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.

Rendering of repair services

Rendering of repair services revenue is recognised when the significant risks and rewards of ownership of the repaired parts 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 repaired parts to the customer.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Property, plant and equipment

Plant and equipment and leasehold improvements are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3 - 5 years
Leasehold improvements	5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Property, plant and equipment (continued).

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

(o) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in the statement of comprehensive income arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Certifications

Significant costs associated with certifications are amortised on a straight line basis over the period of their expected benefit, being their finite life of 5 years.

Licence agreement

Significant costs associated with a licence agreement are amortised on a straight line basis over the period of their expected benefit, being their finite life of 5 years.

Technology

Significant costs associated with technological intellectual property are amortised on a straight line basis over the period of their expected benefit, being their finite life of 10 years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(q) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(r) Income tax

The charge for taxation for the year is the tax payable on the profit or loss for the year based on the applicable income tax rate for each jurisdiction 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.

(s) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee entitlements

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(u) 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 terms.

(v) Investments in subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost less, where appropriate, allowances for impairment.

(w) 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.

(x) Comparative Figures

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

(y) Critical accounting estimates and judgements

The preparation of these financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing the financial statements the significant estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended 30 June 2018, with the exception of the following:

i) Share-based payment transaction:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Black-Scholes or binomial pricing models, using the assumptions detailed in note 23 Share-based payments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) *Acquisition of Anodyne Electronics Manufacturing (AEM)*

In the financial statements for the period ended 31 December 2017 key estimates were applied in the acquisition accounting including the provisional fair value of the assets and liabilities acquired, and the fair value of the consideration paid. The acquisition was determined by the directors to be a business combination as detailed in note 26 Business combination. During the measurement period to 30 June 2018 the Company has retrospectively adjusted the provisional amounts recognised at the acquisition date. At the end of the measurement period the Company has made adjustments to correct errors in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*.

As at 30 June 2018, there are no other critical accounting estimates and judgements contained in the financial report.

(z) Changes in accounting policies and disclosures

In the year ended 30 June 2018, the Group 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 Group 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.

(aa) EU adopted International Financial Reporting Standards and Interpretations not yet mandatory or early adopted

EU adopted International Financial Reporting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

IFRS 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of IFRS 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018 and the impact of its adoption is expected to be minimal on the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) EU adopted International Financial Reporting Standards and Interpretations not yet mandatory or early adopted (continued)

IFRS 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018 and the impact of its adoption is expected to be minimal on the Group as the revenue accounting policy is already consistent with IFRS 15.

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IFRS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under IFRS 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) EU adopted International Financial Reporting Standards and Interpretations not yet mandatory or early adopted (continued)

For lessor accounting the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019. The impact of its adoption is estimated to be as follows:

	2020	2021	2022
Consolidated	\$	\$	\$
Reduction in operating lease expense	(298,916)	(300,372)	(306,372)
Increase in interest expense	38,280	23,783	8,544
Increase in depreciation expense	64,105	311,882	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2018 and 30 June 2017:

	<i>Australia</i>	<i>US/Canada</i>	<i>UK</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2018				
Revenue				
Sale of goods	-	6,817,511	-	6,817,511
Rendering of services	-	619,168	-	619,168
Total sales revenue	-	7,436,679	-	7,436,679
Other revenue	144,383	-	-	144,383
Interest revenue	1,782	-	-	1,782
FX gains	77,099	112,561	-	189,660
Total segment revenue	223,264	7,549,240	-	7,772,504
Sales revenue by customer location:				
Australasia	-	13,452	-	13,452
Africa	-	163,514	-	163,514
Europe	-	571,662	-	571,662
Americas	-	6,688,051	-	6,688,051
Total sales revenue	-	7,436,679	-	7,436,679
Result				
EBITDA	(3,253,604)	(161,443)	(235,976)	(3,651,023)
Depreciation and amortisation	(108)	(314,574)	-	(314,682)
Interest revenue	1,782	-	-	1,782
Finance costs	-	(4,725)	-	(4,725)
Loss before income tax	(3,251,930)	(480,742)	(235,976)	(3,968,648)
Income tax benefit	-	73,951	-	73,951
Loss for the year	(3,251,930)	(406,791)	(235,976)	(3,894,697)
Assets and liabilities				
Segment assets	3,297,543	12,452,176	-	15,749,718
Segment liabilities	456,459	1,768,218	47,598	2,272,275
Other segment information				
Capital expenditure	5,250	214,036	-	219,286
Depreciation	108	113,531	-	113,639
Amortisation	-	201,043	-	201,043

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

3 SEGMENT INFORMATION (CONTINUED)

	<i>Australia</i> \$	<i>US/Canada</i> \$	<i>UK</i> \$	<i>Total</i> \$
Year ended 30 June 2017				
Revenue				
Sale of goods	-	309,347	-	309,347
Rendering of services	-	-	-	-
Total sales revenue	-	309,347	-	309,347
Other revenue	-	-	-	-
Interest revenue	64,105	-	-	64,105
FX gains	-	2,535	-	2,535
Total segment revenue	64,105	311,882	-	375,987
Sales revenue by customer location:				
Europe	-	6,781	-	6,781
Americas	-	302,566	-	302,566
Total revenue	-	309,347	-	309,347
Result				
EBITDA	(897,128)	(295,681)	(250,814)	(1,379,518)
Depreciation and amortisation	-	-	-	-
Interest revenue	64,105	-	-	-
Finance costs	-	-	-	-
Loss before income tax	(833,023)	(295,681)	(250,814)	(1,379,518)
Income tax expense	-	-	-	-
Loss for the year	(833,023)	(295,681)	(250,814)	(1,379,518)
Assets and liabilities				
Segment assets	2,958,276	9,497	-	2,967,773
Segment liabilities	91,698	243,148	-	334,846
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	-	-	-	-
Amortisation	-	-	-	-

Major customers

During the year ended 30 June 2018 approximately \$4.4m (2017: n/a) of the Group's sales revenue was derived from sales to a single US aircraft and parts company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

4 INCOME AND EXPENSES

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
INCOME				
Other income				
Gains on debt for equity swap	144,383	-	-	-
Foreign exchange gains	189,660	2,535	-	-
Finance income/(costs)				
Bank interest	1,782	64,105	-	-
Finance cost	(4,725)	-	-	-
	(2,943)	64,105	-	-
ANALYSIS OF EXPENSES BY NATURE				
Employee remuneration (see note 6)	1,507,392	-	-	-
Intangible assets				
Amortisation of other intangible assets	192,972	-	-	-
Property, plant and equipment				
Depreciation of plant and equipment	113,639	-	-	-
Amortisation of leasehold improvements	8,071	-	-	-
	121,710	-	-	-
Total depreciation and amortisation	314,682	-	-	-
Operating leases	296,024	-	-	-
Consumables and raw materials used	4,623,425	188,772	-	-
Provision for obsolescence	46,055	-	-	-
Freight	116,514	-	-	-
Auditor's remuneration (see note 30)	249,345	64,240	64,354	22,340
Impairment charges	-	-	3,795,458	1,128,704
Share-based payments expense	1,825,996	-	-	-
Research and development	163,141	-	-	-
Exceptional items	449,492	-	-	-
Other costs of sales, distribution and administration	2,144,361	1,502,493	171,622	228,474
	11,736,427	1,755,505	4,031,434	1,379,518

Impairment charges relate to loans to subsidiary undertakings which are written down to the net asset values of those entities excluding the loans at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

5 EXCEPTIONAL ITEMS

The exceptional items consist of legal and professional fees of \$302,592 and a share-based payment of \$146,900 incurred in the acquisition of Anodyne Electronics Manufacturing Corp. Further details of the acquisition can be found in Note 26 Business combination.

6 EMPLOYEES AND DIRECTORS

The average number of employees and directors employed by the Group during the year was:

	Consolidated		Parent	
	2018 No.	2017 No.	2018 No.	2017 No.
Employee and directors' numbers				
Production	33	-	-	-
Research	15	-	-	-
Selling and distribution	7	-	-	-
Administration (including directors)	34	3	3	3
	<u>89</u>	<u>3</u>	<u>3</u>	<u>3</u>

	Consolidated		Parent	
	2018 \$	2017 \$	2018 \$	2017 \$
Employee remuneration				
Wages and salaries	1,097,664	-	-	-
Social security costs	301,503	-	-	-
Defined contribution costs	108,225	-	-	-
Total employee costs	<u>1,507,392</u>	<u>-</u>	<u>-</u>	<u>-</u>

Directors remuneration

Directors' fees, including superannuation, of \$504,490 are included in administrative expenses in the Statement of comprehensive income. Directors' share-based payments of \$1,527,806 are included in share-based payments in the Statement of comprehensive income (refer note 31 Directors and executives disclosures (b)(ii)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

7 INCOME TAX

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
The major components of income tax expense/(benefit) for the years ended 30 June 2018 and 30 June 2017 are:				
a) Income tax expense/(benefit)				
Current tax expense	285,157	-	-	-
Deferred tax	(359,108)	-	-	-
Income tax expense/(benefit) reported in statement of comprehensive income	(73,951)	-	-	-
A reconciliation of income tax expense/(benefit) 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 2018 and 30 June 2017 is as follows:				
Accounting loss before tax from continuing operations at the statutory income tax rate of 27.50% (2017: 27.50%)	(1,091,378)	(379,368)	(1,108,644)	(379,368)
Expenses/(income) not assessable for income tax purposes	567,745	116,532	1,052,887	314,702
Deferred tax not recognised	449,682	262,836	55,757	64,666
Income tax expense/(benefit) reported in statement of comprehensive income	(73,951)	-	-	-
Unrecognised deferred tax assets/(liabilities)				
Deferred tax assets and liabilities are attributable to the following:				
Accrued expenses	16,486	(11,378)	9,136	(3,953)
Costs deductible over 5 years	(35,985)	6,745	(35,985)	6,745
Tax losses	11,385,920	10,943,005	1,751,813	1,659,894
Deferred tax not recognised	(11,366,421)	(10,938,372)	(1,724,964)	(1,662,686)
Recognised deferred tax assets				
Deferred tax assets are attributable to the following:				
Tax losses	107,061	-	-	-
	107,061	-	-	-

The income tax losses that have been recognised on current year losses have 20 years remaining before expiry. The remaining income tax losses have not been recognised 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

FOR THE YEAR ENDED 30 JUNE 2018

7 INCOME TAX (CONTINUED)

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Recognised deferred tax liabilities				
Deferred tax liabilities are attributed to the following:				
Balance on acquisition of subsidiary	(800,830)	-	-	-
Amortisation of intangible assets	44,116	-	-	-
Reversal of DTL on inventory	219,906	-	-	-
	<u>(536,808)</u>	<u>-</u>	<u>-</u>	<u>-</u>

8 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 performance rights or options on issue which would be potential ordinary shares having a dilutive effect. The number of options at 30 June 2018 was 1,829,082 (2017: 1,829,082) and the number of performance rights at 30 June 2018 was 2,625,000 (2017: nil) These were not considered to be dilutive because the share price at 30 June 2018 did not exceed the share price targets attached.

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

	Consolidated	
	2018	2017
	\$	\$
Net loss attributable to equity holders from continuing operations	(3,894,697)	(1,379,518)
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for basic loss per share	109,771,428	102,230,559
Weighted average number of ordinary shares for diluted loss per share	109,771,428	102,230,559

9 CURRENT ASSETS - TRADE RECEIVABLES

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade receivables	2,867,156	9,497	-	-
	<u>2,867,156</u>	<u>9,497</u>	<u>-</u>	<u>-</u>

AEM was acquired on 8 December 2017. AEM trade receivables at the date of acquisition were \$3,025,709. Refer to Note 26: Business combination for details of the acquisition

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

10 CURRENT ASSETS - PREPAYMENTS AND OTHER RECEIVABLES

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Prepayments	185,249	4,167	-	-
Other receivable	4,624	-	-	-
GST receivable	87,741	10,486	-	-
Deposits	7,757	-	-	-
	<u>285,371</u>	<u>14,653</u>	-	-

AEM was acquired on 8 December 2017. AEM prepayments and other receivables at the date of acquisition were \$180,427. Refer to Note 26: Business combination for details of the acquisition

11 CURRENT ASSETS - INVENTORY

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Raw materials	2,874,974	-	-	-
Work in progress	719,761	-	-	-
Finished goods	1,161,108	-	-	-
Provision for obsolescence	(46,055)	-	-	-
	<u>4,709,788</u>	-	-	-

AEM was acquired on 8 December 2017. AEM inventory at the date of acquisition was \$4,634,395. Refer to Note 26: Business combination for details of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Leasehold improvements at cost	120,996	-	-	-
Less: accumulated depreciation	(8,133)	-	-	-
	112,863	-	-	-
Plant and equipment at cost	538,477	-	-	-
Less: accumulated depreciation	(114,510)	-	-	-
	423,967	-	-	-
	536,830	-	-	-

	Leasehold improvements	Plant and equipment	Total
Consolidated	\$	\$	\$
Balance at 1 July 2017	-	-	-
Additions through business combinations (note 26)	19,287	424,878	444,165
Additions	101,155	115,924	217,079
Depreciation and amortisation expense	(8,071)	(113,639)	(121,710)
Effect of FX movement on balances	492	(3,195)	(2,703)
Balance at 30 June 2018	112,863	423,967	536,830

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

13 NON-CURRENT ASSETS - INTANGIBLE ASSETS AND GOODWILL

Reconciliations of the written down values at the beginning and end of the current financial year are set out below (There were no intangible assets or goodwill in the previous financial year):

	Goodwill	Certifications	Licence agreement	Technology	Total
	\$	\$	\$		\$
Consolidated					
Balance at 30 June 2017	-	-	-	-	-
Additions through business combinations (note 26)	1,402,945	1,138,892	103,536	1,449,498	4,094,871
Amortisation expense	-	(111,720)	(10,156)	(71,096)	(192,972)
Effect of FX on balances	(16,151)	(13,970)	(1,271)	(17,231)	(48,623)
Balance at 30 June 2018	1,386,794	1,013,202	92,109	1,361,171	3,853,276

INTANGIBLE ASSETS

Certifications

AEM possesses distinct aircraft manufacturing and maintenance certifications, which are requisite to the sale and maintenance of their products in key markets.

Licence agreement

AEM has a licence agreement in place with one of their key customers to be the producer and seller of certain aircraft instruments. This has identifiable cash flows in the form of future sales to aircraft manufacturing and maintenance providers who require these instruments.

Technology

AEM has developed proprietary aircraft parts and manufacturing technology which are expected to continue to yield future sales. This intellectual property is separable and identifiable to the extent that it could be licensed or acquired. In addition, there are identifiable future benefits in the form of cash flows from the sale of the resulting products to AEM customers.

Fair value

The fair values of these intangible assets were calculated on acquisition as follows:

Certifications – fair value determined using the replacement cost approach

Licence agreement – fair value determined using the comparable cost approach

Technology – fair value determined using the replacement cost approach

Amortisation

The amortisation period applied to the intangible assets are as follows:

Certifications – 5 years

Licence agreement – 5 years

Technology – 10 years

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

13 NON-CURRENT ASSETS - INTANGIBLE ASSETS AND GOODWILL

Impairment testing

Goodwill acquired through business combinations have been allocated to the AEM cash generating unit (2017: nil).

The impairment test has been carried out using a discounted cash flow model covering a 5 year period. Cash flow projections are based on budgets approved by management. The principal assumptions made in determining the recoverable amount of goodwill as at 30 June 2018 include revenue growth of 2% per annum and a discount rate of 15.1%.

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% less favourable in management's estimate the Group would need to reduce the carrying value of goodwill by \$364,122.

14 NON-CURRENT ASSETS - DEFERRED TAX

Deferred tax asset comprises temporary differences attributable to:

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Tax losses	107,061	-	-	-
	107,061	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

15 NON-CURRENT ASSETS - LOANS

Company	Loans to subsidiary undertakings \$	Total \$
Year ended 30 June 2018		
Cost		
At 1 July 2017	9,897,390	9,897,390
Arising during the year	14,673,197	14,673,197
At 30 June 2018	<u>24,570,587</u>	<u>24,570,587</u>
Impairment		
At 1 July 2017	(7,250,088)	(7,250,088)
Impairment charge	(3,795,458)	(3,795,458)
	<u>(11,045,546)</u>	<u>(11,045,546)</u>
Net carrying amount at 30 June 2018	<u>13,525,041</u>	<u>13,525,041</u>
Year ended 30 June 2017		
Cost		
At 1 July 2016	9,415,904	9,415,904
Arising during the year	481,486	481,486
At 30 June 2017	<u>9,897,390</u>	<u>9,897,390</u>
Impairment		
At 1 July 2016	(6,121,384)	(6,121,384)
Impairment charge	(1,128,704)	(1,128,704)
	<u>(7,250,088)</u>	<u>(7,250,088)</u>
Net carrying amount at 30 June 2017	<u>2,647,302</u>	<u>2,647,302</u>

Loans to subsidiaries are unsecured, have no fixed date for repayment and attract no interest charge.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

15 NON-CURRENT ASSETS – LOANS (CONTINUED)

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

	Country of Incorporation	Type of equity	% Equity Interest	
			2018 %	2017 %
Structural Monitoring Systems Limited Registered office: Suite 39 1 Freshwater Parade Claremont WA 6009 Australia	Australia	Ordinary share	100	100
Structural Health Monitoring Systems Canada Corp (SMSCC) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	n/a
Anodyne Electronics Manufacturing Corp (AEM) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	n/a

SMSCC was incorporated on 24 October 2017.

AEM was acquired on 8 December 2017 at a cost of \$10,998,750. Further details relating to the acquisition can be found in Note 26: Business combination.

16 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2018 \$	2017 \$	2018 \$	2017 \$
Trade payables	479,105	-	-	-
Other payables	983,671	334,846	47,598	14,375
	<u>1,462,776</u>	<u>334,846</u>	<u>47,598</u>	<u>14,375</u>

Trade payables are non-interest bearing and are normally settled within 30 day terms. Other payables are non-interest bearing and have an average term of 30 days.

AEM trade and other payables at the date of acquisition were \$486,661. Refer to Note 26 Business combination for details of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

17 CURRENT LIABILITIES - BORROWINGS

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Credit card	7,741	-	-	-
Borrowings - secured	131,905	-	-	-
	<u>139,646</u>	<u>-</u>	<u>-</u>	<u>-</u>

AEM has a secured overdraft facility with a banking institution. The facility has a limit of CAD\$2,000,000 secured on trade receivables. The variable interest rate on the facility is 4.45%.

18 CURRENT LIABILITIES - PROVISIONS

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Provision for income tax	133,045	-	-	-
	<u>133,045</u>	<u>-</u>	<u>-</u>	<u>-</u>

AEM provision for income tax at the date of acquisition was \$93,326. Refer to Note 26 Business combination for details of the acquisition

19 NON-CURRENT LIABILITIES - DEFERRED TAX

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Balance acquired through business combination	800,830	-	-	-
Reverse DTL on inventory	(218,191)	-	-	-
Unwind of intangible assets	(44,116)	-	-	-
Effect of movement in foreign exchange	(1,715)	-	-	-
	<u>536,808</u>	<u>-</u>	<u>-</u>	<u>-</u>

AEM deferred tax liability at the date of acquisition was \$800,830. Refer to Note 26 Business combination for details of the acquisition

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

	Consolidated		Parent	
	2018 \$	2017 \$	2018 \$	2017 \$
Loss before tax for the year	(3,968,648)	(1,379,518)	(4,031,434)	(1,379,518)
<i>Adjustments for:</i>				
Share based payments	1,972,896	268,181	-	31,596
Depreciation and amortisation	314,682	-	-	-
Gain on debt for equity swap on accrued directors' fees	(115,495)	-	-	-
Foreign exchange difference	-	(2,995)	-	-
Write off of uncollectible receivables	-	11,272	-	11,272
Impairment of investments in subsidiaries	-	-	3,795,458	1,128,704
<i>Changes in assets and liabilities</i>				
Trade receivables	133,383	(14,903)	-	-
Prepayments and other receivables	(86,063)	-	-	-
Inventory	33,222	-	-	-
Trade and other payables	762,367	144,890	33,223	(917)
Net cash used in operating activities	(953,656)	(973,073)	(202,753)	(208,863)

20(b) CASH AND CASH EQUIVALENTS

Cash at bank	3,388,759	2,943,540	-	-
Cash on hand	1,477	83	-	-
Borrowings	(139,646)	-	-	-
	3,250,590	2,943,623	-	-

21 LIABILITIES ARISING FROM FINANCING ACTIVITIES

Consolidated	Overdraft facility	Credit card facility	Total
	\$	\$	\$
Balance at 1 July 2017	-	-	-
Net cash provided by financing activities	131,905	7,741	139,646
Balance at 30 June 2018	131,905	7,741	139,646

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

22 EMPLOYEE BENEFITS

(a) Employees incentive plan

The Group has an employee incentive plan (EIP) for the granting of non-transferable options to directors and employees with more than six months' service at the grant date. The options are cancelled upon the director or employee leaving the service of the Group.

Under the EIP 3,575,000 performance rights, and the issue of shares following the vesting of those performance rights, were granted to directors and executives during the year. Details are included in note 23 Share-based payments.

(b) Pensions and other post-employment benefit plans

AEM maintains a defined contribution pension plan for its' employees. AEM contributes 5% of salary to the Plan. Employees must be employed with the company for 12 months before they are entitled to the benefit. There are currently 69 employees participating in the plan. Contributions are paid monthly and recognised in the Statement of comprehensive income.

23 SHARE-BASED PAYMENTS

The share-based payment expense for the year is as follows:

	Consolidated		Parent	
	2018	2017	2018	2017
	\$	\$	\$	\$
Issue of performance rights to directors and executives	1,380,096	-	-	-
Issue of shares to directors and executives	146,900	28,085	-	-
Issue of shares to other consultants	445,900	240,096	-	31,596
	<u>1,972,896</u>	<u>268,181</u>	-	<u>31,596</u>

A share-based payment with a fair value of \$146,900 made during the year has been classed as an exceptional item in the Statement of comprehensive income. The shares were issued to a director for services rendered in the acquisition of AEM.

A share-based payment with a fair value of \$72,030 was made to Andrew Chilcott during the year but subsequently forfeited following his resignation as a director of the company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

23 SHARE-BASED PAYMENTS (CONTINUED)

Performance Rights - Directors

On 7 December 2017 shareholders approved the issue of 1,725,000 Performance Rights (PRs) (and the issue of shares following the vesting of those Performance Rights) to directors under the Company Employee Incentive Plan

Tranche 1 Rights do not have any vesting conditions or share price barriers. Consequently the Tranche 1 Rights were issued as CDIs on the issue date. Tranches 2 to 7 vest based on the attainment of share price barriers within 3 years of grant date.

The following director PRs were issued during the year: (No. '000s)

Directors	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Total
Robert Reveley	200	200	200	100	25	25	50	800
Andrew Chilcott*	-	200	25	25	25	25	-	300
William Rouse	-	400	50	50	25	50	50	625
Totals	200	800	275	175	75	100	100	1,725
Fair value at grant date (\$)	293,800	1,077,600	342,100	201,250	83,025	106,600	102,800	2,207,175
Expense recognised in current period (\$)	293,800	151,767	58,401	32,393	10,394	15,014	19,304	581,073

*Performance shares issued to Andrew Chilcott were subsequently forfeited following his resignation as a director of the company.

The inputs to the valuation of Director PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier (\$)	-	2.00	2.50	3.00	3.25	3.50	3.75
Grant date	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17	7-Dec-17
Performance period (years)	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Volatility (%)	75	75	75	75	75	75	75
Risk free rate (%)	1.93	1.93	1.93	1.93	1.93	1.93	1.93
Dividend yield	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

23 SHARE-BASED PAYMENTS (CONTINUED)

Performance Rights - Executives

On 29 December 2017 the Board granted 1,850,000 Performance Rights (and the issue of shares following the vesting of those performance rights) to Toby Chandler (CEO) under the Company Employee Incentive Plan (No. '000s) as set below:

Executives	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Total
Toby Chandler (CEO) PRs	450	450	400	150	150	125	125	1,850
Fair value at grant date (\$)	573,300	485,550	391,200	136,950	129,300	103,375	99,375	1,919,050
Expense recognised in current period (\$)	573,300	81,441	65,616	22,971	21,688	17,339	16,668	799,023

Tranche 1 Rights do not have any vesting conditions or share price barriers. Consequently the Tranche 1 Rights were issued as CDIs on the issue date. Tranches 2 to 7 vest based on the attainment of share price barriers within 3 years of grant date.

The inputs to the valuation of CEO PRs issued were:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7
Exercise price (cents)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Share price barrier (\$)	-	2.20	2.75	3.15	3.50	3.75	4.00
Grant date	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17	29-Dec-17
Performance period (years)	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Volatility (%)	75	75	75	75	75	75	75
Risk free rate (%)	2.13	2.13	2.13	2.13	2.13	2.13	2.13
Dividend yield	-	-	-	-	-	-	-

Black-Scholes and binomial pricing models were used in the valuations of performance shares and performance rights issued during the year.

The number of performance rights that were outstanding, their weighted average exercise price and their movement during the year is as follows:

	2018 No. '000	2017 No. '000	Weighted ave ex price 2018 \$	2017 \$
At 1 July 2017	-	-	-	-
Granted	3,575	-	2.19	-
Exercised	(650)	-	-	-
Forfeited	(300)	-	2.33	-
At 30 June 2018	2,625	-	2.71	-

The contractual term remaining on performance rights outstanding at 30 June 2018 is 2 years and 5 months.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

23 SHARE-BASED PAYMENTS (CONTINUED)

The outstanding number of performance rights at 30 June 2018 and 30 June 2017 was as follows:

Exercise price \$	Grant date	Expiry date	2018 ('000)	2017 ('000)
\$2.00	7 December 2017	7 December 2020	600	-
\$2.20	7 December 2017	7 December 2020	450	-
\$2.50	7 December 2017	7 December 2020	250	-
\$2.75	7 December 2017	7 December 2020	400	-
\$3.00	7 December 2017	7 December 2020	150	-
\$3.15	7 December 2017	7 December 2020	150	-
\$3.25	7 December 2017	7 December 2020	100	-
\$3.50	7 December 2017	7 December 2020	175	-
\$3.75	7 December 2017	7 December 2020	225	-
\$4.00	7 December 2017	7 December 2020	125	-
			2,625	-

Shares issued to consultants

On 7 December 2017 shareholder approved the issue of 350,000 shares to consultants under the Company Employee Incentive Plan.

The expense recognised during the current period for the issue is \$445,900. The total fair value was determined by the share price on the grant date.

Shares issued to director for services provided

On 7 December 2017 shareholders approved the issue of 100,000 shares to a William Rouse for services provided in the acquisition of AEM. The exceptional expense recognised in the current period is \$146,900 (Refer Note 5 Exceptional items). The total fair value was determined by the share price on the grant date.

Shares issued in lieu of fees owing

During the period shares issued in lieu of fees owing to Michael Reveley and Toby Chandler of \$250,262 for services provided per their respective employment agreement were satisfied through the issue of shares with a value at grant date of \$105,879. The gain on forgiveness of fees owing of \$144,383 has been recognised in the Statement of Comprehensive Income as Other Income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

24 ISSUED CAPITAL AND RESERVES

	Consolidated		Parent	
	2018 \$	2017 \$	2018 \$	2017 \$
Ordinary Shares				
Issued and fully paid	31,926,515	31,867,455	31,926,515	31,867,455
Total issued and fully paid	31,926,515	31,867,455	31,926,515	31,867,455

	Shares on issue (No.)	\$
<i>Movement in ordinary shares in issue</i>		
At 30 June 2016	101,813,834	31,863,592
Issued on 31 August 2016 - conversion of unlisted options	23,438	117
Issued on 13 September 2016 - conversion of unlisted options	50,000	250
Issued on 3 October 2016 - conversion of unlisted options	103,062	515
Issued on 15 November 2016 - conversion of unlisted options	414,062	2,070
Issued on 20 December 2016 – share-based payment	32,173	161
Issued on 27 March 2017 – share-based payment	150,000	750
At 30 June 2017	102,586,569	31,867,455
Issued on 14 November 2017 – placement of shares for cash	10,400,000	52,000
Issued on 21 November 2017 – in lieu of cash for placement costs	240,000	1,200
Issued on 29 December 2017 – share-based payments	941,186	4,706
Issued on 5 January 2018 – share-based payments	230,890	1,154
At 30 June 2018	114,398,645	31,926,515

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

24 ISSUED CAPITAL AND RESERVES (CONTINUED)

	Consolidated		Parent	
	2018 \$	2017 \$	2018 \$	2017 \$
Share Premium Reserve				
Share Premium Reserve	34,919,253	22,069,759	34,919,253	22,069,759

	Shares on issue (No.)	\$
<i>Movement in ordinary shares in issue</i>		
At 30 June 2016	101,813,834	21,351,677
Issued on 31 August 2016 - Conversion of unlisted options	23,438	5,742
Issued on 13 September 2016 - Conversion of unlisted options	50,000	112,250
Issued on 3 October 2016 - Conversion of unlisted options	103,062	231,375
Issued on 15 November 2016 - Conversion of unlisted options	414,062	101,445
Issued on 20 December 2016 - share based payment	32,173	59,520
Issued on 27 March 2017 - share based payment	150,000	207,750
At 30 June 2017	102,586,569	22,069,759
Issued on 14 November 2017 – Placement of shares for cash	10,400,000	12,948,000
Issued on 21 November 2017 – In lieu of cash for placement costs	240,000	327,600
Issued on 29 December 2017 – share-based payments	941,186	60,296
Issued on 5 January 2018 - share based payments	230,890	45,223
Share issue cost		(531,625)
At 30 June 2018	114,398,645	34,919,253

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

25 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:

- Market risk, including foreign currency risk, price risk and interest rate risk
- Credit and cashflow risk
- Liquidity 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, borrowings 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.

Interest bearing liabilities include a bank overdraft facility secured on trade receivables. At the date of issue of this report the facility has been repaid.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

25 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

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 as 2017.

	Carrying value at year end	Profit or loss		Equity	
		100bp increase	100bp decrease	100bp increase	100bp decrease
Consolidated - 30 June 2018	\$	\$	\$	\$	\$
Cash and cash equivalents	3,390,236	33,902	(33,902)	33,902	(33,902)
Borrowings	(139,646)	(1,396)	1,396	(1,396)	1,396
		32,506	(32,506)	32,506	(32,506)
Consolidated - 30 June 2017					
Cash and cash equivalents	2,943,623	29,436	(29,436)	29,436	(29,436)

	Carrying value at year end	Profit or loss		Equity	
		100bp increase	100bp decrease	100bp increase	100bp decrease
Parent - 30 June 2018	\$	\$	\$	\$	\$
Cash and cash equivalents	-	-	-	-	-
Borrowings	-	-	-	-	-
Parent - 30 June 2017					
Cash and cash equivalents	-	-	-	-	-

Credit and cash flow risk

Credit and cash flow 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 and cash flow risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit and cash flow 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 Fitch Ratings credit rating of at least A-, Moody's credit rating of at least A2, and Standard & Poor's credit rating of at least A-. 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. The Group does not hold collateral as security for any of its' receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

25 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Exposure to credit and cash flow risk

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

	Consolidated Carrying amount		Parent Carrying amount	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash and cash equivalents	3,390,236	2,943,623	-	-
Trade receivables	2,867,156	9,497	-	-
	<u>6,257,392</u>	<u>2,953,120</u>	<u>-</u>	<u>-</u>

The Group's maximum exposure to credit and cash flow risk for trade receivables and cash and cash equivalents at the reporting date by geographic region was:

	Consolidated Carrying amount		Parent Carrying amount	
	2018	2017	2018	2017
	\$	\$	\$	\$
Europe	198,277	6,781	-	-
Americas	2,805,304	2,716	-	-
Australasia	3,253,811	-	-	-
	<u>6,257,392</u>	<u>2,953,120</u>	<u>-</u>	<u>-</u>

Impairment losses

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

	Consolidated		Parent	
	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
	\$	\$	\$	\$
Not past due	1,394,059	-	-	-
Past due 31-60 days	914,073	-	-	-
Past due 61-90 days	350,822	-	-	-
Past due 91 days +	208,202	-	9,497	-
	<u>2,867,156</u>	<u>-</u>	<u>9,497</u>	<u>-</u>

Trade receivables at 30 June 2018 represent 79 debtors days.

There were no impairment losses at 30 June 2018 (2017: \$nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

25 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

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 2018	Carrying amount	Contractual cash flows	6 months or less
	\$	\$	\$
Trade and other payables	(1,462,776)	(1,462,776)	(1,462,776)
Borrowings	(139,646)	(139,646)	(139,646)
	<u>(1,602,422)</u>	<u>(1,602,422)</u>	<u>(1,602,422)</u>

Consolidated - 30 June 2017	Carrying amount	Contractual cash flows	6 months or less
	\$	\$	\$
Trade and other payables	(334,846)	(334,846)	(334,846)
	<u>(334,846)</u>	<u>(334,846)</u>	<u>(334,846)</u>

Fair Value of Financial Assets and Liabilities

The carrying amount of financial assets and financial liabilities recorded by category is as follows:

	Consolidated Carrying amount		Parent Carrying amount	
	2018	2017	2018	2017
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	3,390,236	2,943,623	-	-
Trade receivables	2,867,156	9,497	-	-
Loans to subsidiary undertakings	-	-	13,525,041	2,647,302
	<u>6,257,392</u>	<u>2,953,120</u>	<u>13,525,041</u>	<u>2,647,302</u>
Financial liabilities				
Borrowings	139,646	-	-	-
Trade and other payables	1,462,776	334,846	47,598	14,375
	<u>1,602,422</u>	<u>334,846</u>	<u>47,598</u>	<u>14,375</u>

Foreign Currency Risk

The Group undertakes sales and purchases that are denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations in the US dollar, Canadian dollar, the Euro and the British pound.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

25 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Exposure to Currency Risk

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

In AUD	30 June 2018				30 June 2017		
	AUD	CAD	USD	GBP	AUD	USD	GBP
Cash	2,229,616	304,223	856,398	-	2,894,457	49,166	-
Trade receivables	-	126,598	2,740,558	-	14,653	9,497	-
Trade and other Payables	(456,459)	(762,210)	(196,509)	(47,598)	(77,323)	(243,148)	(14,375)
	1,773,156	(331,390)	3,400,447	(47,598)	2,831,787	(184,455)	(14,375)

The Group had net assets denominated in foreign currencies of \$3,021,459 as at 30 June 2018 (2017: net liabilities of \$287,436). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% (2017: weakened by 10%/strengthened by 5%) against these foreign currencies with all other variables held constant, the Group's loss before tax for the year would have been \$186,084 higher/\$93,042 lower (2017: \$28,744 higher/\$14,372 lower).

The Board regularly monitors the Group's exposure to foreign exchange fluctuations.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
AUD:CAD	1.0156	n/a	1.0234	n/a
AUD:USD	0.7753	0.7536	0.7403	0.7663

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 a secured overdraft facility available with a credit limit of CA\$2 million. It has not made use of long term debt financing, but has instead chosen to raise additional capital by issuing shares. The Board regularly monitors, liquidity, exchange rates, cash flow and financial assets and liabilities balances by means of financial reports and cashflow forecasting.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

26 BUSINESS COMBINATION

Acquisition

On 8 December 2017 Structural Monitoring Systems Plc acquired 100% of the issued shares of Anodyne Electronics Manufacturing Corp (AEM), a company incorporated in Canada, through its wholly-owned subsidiary Structural Monitoring System Canada Corporation, an entity incorporated during the year.

AEM is a leading designer and manufacturer of avionics, aircraft audio systems, intercoms, tactical FM radio systems, illuminated panels and display products, external PA systems, audio amplifiers, audio adapters and remote switch assemblies. In addition, AEM provides prototyping services, outsourced production facilities and electronic assembling.

AEM also provides comprehensive electronics manufacturing services for emerging companies and companies with emerging products. This includes providing solutions for the unique challenges of lower volume, high-mix product configurations and accelerating time to market.

The total cost of the acquisition was \$10,353,560 cash (CAD\$10,000,000), \$776,517 (CAD\$750,000) of which is to be held in escrow for a period of 18 months following settlement) and a working capital adjustment of \$645,190 (CAD\$623,158).

The acquisition enables the Company to shift its focus from being a pure research and development focused entity to a company with a focus on broad technology development and manufacturing. The acquisition of AEM provides a "turn-key platform" for vertical manufacturing integration into the Company. Rather than having to build a manufacturing platform, the Company has acquired the proven platform built by AEM thereby allowing the Company to focus its attention on the commercialisation of its technology.

AEM and its existing operations also provide for a diversified revenue offering which is largely contracted and stable. AEM also offers 90+ professional staff for a fully integrate-able business, with the ability to consolidate back office processes.

Consideration transferred

Acquisition date fair value of the consideration transferred

	\$
Cash paid on settlement	10,353,560
Working capital adjustment owing from acquisition (i)	645,190
Total consideration	<u>10,998,750</u>

- (i) Calculated as being the difference between net working capital on acquisition and the agreed target net working capital of CAD\$5.6 million at settlement.

Other acquisition costs incurred to the reporting date amounting to \$449,492 have been expensed (refer to Note 5: Exceptional items).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

26 BUSINESS COMBINATION (CONTINUED)

Assets acquired, and liabilities assumed at the date of acquisition

	Fair value \$
Trade receivables	3,025,709
Inventory	4,634,395
Prepayments and other receivables	180,427
Property, plant and equipment	444,165
Intangible assets	2,691,926
Trade and other payables	(486,661)
Provision for tax	(93,326)
Deferred tax liability	(800,830)
Fair value of identifiable net assets acquired	9,595,805
goodwill	1,402,945
Total consideration	10,998,750

Intangible assets

All intangible assets in accordance with IFRS 3 Business Combinations were recognised at their provisional fair values on the date of acquisition, with the result excess over net assets being recognised as goodwill. Intangible assets arising from the acquisition consisted of the following and have been independently valued by professional advisors:

	\$
Cerifications	1,138,892
Licence agreement	103,536
Technology	1,449,498
	2,691,926

The assembled workforce, comprising 90+ professional staff, high existing profitability and the synergies that the Group will obtain all contributed to the amount paid for goodwill. Those assets do not meet the recognition criteria prescribed by IFRS 3 Business Combinations and have therefore not been recognised as separate intangible assets, but subsumed in goodwill.

If the acquisition of Anodyne Electronics Manufacturing Corp (AEM) had been completed on the first day of the financial year, Group revenues for the year would have been \$13,932,711 and Group losses would have been \$3,143,520.

Post acquisition AEM contributed revenue of \$7,419,746 and a loss before tax of \$480,741.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

27 COMMITMENTS AND CONTINGENCIES

During the year, an arbitration award was made in relation to a dispute between the Company and Tulip Bay Pty Ltd. The arbitrator has ruled in favour of Tulips Bay and a related party in the sum of approximately \$279,386 including costs and interest. The Company had issued proceedings in the Supreme Court of Western Australia seeking to overturn the arbitration award, the proceedings were dismissed and are now the subject of an appeal to the Court of Appeal, which will be heard in November 2018. As a result, the dispute is still on going. As a matter of prudence the Group has recognised the amount awarded as a current liability under other payables in the statement of financial position as at 30 June 2018.

Following the acquisition of AEM on 8 December 2017 commitments of the Group have increased as follows:

	Consolidated		Parent	
	2018	2017	2018	2017
Operating lease commitments	\$	\$	\$	\$
<i>Land and buildings</i>				
Within one year	303,530	-	-	-
Later than one year but not later than 5 years	611,518	-	-	-
	915,048	-	-	-

28 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	
		2018	2017
Structural Monitoring Systems Ltd	Australia	100	100
Structural Monitoring Systems Canada Corp (SMSCC)	Canada	100	-
Anodyne Electronics Manufacturing Corp (AEM)	Canada	100	-

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

The Australian subsidiary carries on the business of developing the Group's structural health monitoring technology.

SMSCC was incorporated on 24 October 2017.

Anodyne Electronics Manufacturing Corporation (AEM), was acquired by SMSCC on 8 December 2018 for a consideration of \$10,998,750. Details of the acquisition are provided in note 26 Business combination.

Remuneration paid to the directors and executives, who are considered key management personnel, for the year is disclosed in note 31(b) (ii).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

28 RELATED PARTY DISCLOSURE (CONTINUED)

The following are the amounts due to key management personnel at reporting date:

	2018 \$	2017 \$
Due to executive – Toby Chandler	3,028	91,564
Due to director – Michael Reveley	-	129,810
Due to director – Ray Lewis	-	21,774

29 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date the Company issued 450,000 Chess Depository Interests (CDI's), 450,000 Performance Rights and 5,000,000 Performance shares following shareholder approval at an extraordinary general meeting held on 7 August 2018.

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.

30 AUDITORS' REMUNERATION

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

	Consolidated		Parent	
	2018 \$	2017 \$	2018 \$	2017 \$
Fees payable to RSM UK LLP and its associates in respect of both audit and non-audit services are as follows:				
Audit services – statutory audit of parent and consolidated accounts	137,165	19,540	48,265	19,540
Other services				
Audit services – statutory audit of associates of the company	3,500	-	-	-
Audit-related assurance services	44,200	-	9,832	-
Taxation compliance services	11,300	39,500	-	-
Taxation advisory services	53,180	5,200	6,257	2,800
	249,345	64,240	64,354	22,340

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

31 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

R. Michael Reveley	Executive Director
Will Rouse	Executive Director (appointed 8 November 2017)
Terry Walsh	Non-Executive Director (appointed 4 April 2018)
Andrew Chilcott	Non-Executive Director (resigned 4 April 2018)
Ray Lewis	Non-Executive Director (resigned 8 November 2017)

(ii) Specified executives

Toby Chandler	Chief Executive Officer
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(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 emoluments 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 Company Employee Incentive 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 3 months' notice period and provides for payment of an amount of three months' salary at the end of the three month notice period. Any options or performance rights held lapse when the service period is completed.

(ii) Remuneration of Directors and Executives

The remuneration of directors and executives for the years ended 30 June 2018 and 30 June 2017 is as follows:

	CONSOLIDATED	
	2018	2017
	\$	\$
Wages, salaries and short-term benefits	501,762	448,816
Post-employment benefits	2,728	-
Share-based payments	146,900	-
	680,278	448,816

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

31 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Performance rights holdings of Directors and Executives

Performance rights held over shares in Structural Monitoring Systems Plc:

	Balance at beg of year No.	Granted during the year No.	Exercised during the year No.	Forefeited during the year No.	Balance at end of the year No.
30 June 2018					
Directors					
R. Michael Reveley	-	800,000	(200,000)	-	600,000
Will Rouse ⁽¹⁾	-	625,000	-	-	625,000
Andrew Chilcott ⁽²⁾	-	300,000	-	(300,000)	-
Terry Walsh ⁽³⁾	-	-	-	-	-
Ray Lewis ⁽⁴⁾	-	-	-	-	-
Executives	-	-	-	-	-
Toby Chandler	-	1,850,000	(450,000)	-	1,400,000
	-	3,575,000	(650,000)	(300,000)	2,625,000
	Balance at beg of year No.	Granted during the year No.	Exercised during the year No.	Forefeited during the year No.	Balance at end of the year No.
30 June 2017					
Directors					
R. Michael Reveley	-	-	-	-	-
Andrew Chilcott ⁽²⁾	-	-	-	-	-
Ray Lewis ⁽⁴⁾	-	-	-	-	-
David Veitch ⁽⁶⁾	-	-	-	-	-
Executives	-	-	-	-	-
Toby Chandler ⁽⁵⁾	-	-	-	-	-
	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

31 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(d) Shareholdings of Directors and Executives

Shares held in Structural Monitoring Systems Plc:

30 June 2018	Balance at beg of period	Share held on appointment/re signation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of period
	No.	No.	No.	No.	No.	No.
Directors						
R. Michael Reveley	2,713,462	-	30,890	200,000	-	2,944,352
Will Rouse ⁽¹⁾	-	-	100,000	-	-	100,000
Andrew Chilcott ⁽²⁾	357,140	(357,140)	-	-	-	-
Terry Walsh ⁽³⁾	-	-	-	-	-	-
Ray Lewis ⁽⁴⁾	-	-	-	-	-	-
Executives						
Toby Chandler	1,515,000	-	41,186	450,000	10,000	2,016,186
Total	4,585,602	(357,140)	172,076	650,000	10,000	5,060,538
<hr/>						
30 June 2017	Balance at beg of period	Share held on appointment/re signation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of period
	No.	No.	No.	No.	No.	No.
Directors						
R. Michael Reveley	2,933,374	-	-	-	(219,912)	2,713,462
Andrew Chilcott ⁽²⁾	351,000	-	15,140	-	(9,000)	357,140
Ray Lewis ⁽⁴⁾	-	-	-	-	-	-
David Veitch ⁽⁶⁾	180,000	(180,000)	-	-	-	-
Executives						
Toby Chandler ⁽⁵⁾	5,556,321	-	-	-	(4,041,321)	1,515,000
Total	9,020,695	(180,000)	15,140	-	(4,270,233)	4,585,602

⁽¹⁾ Appointed 8 November 2017

⁽²⁾ Resigned 4 April 2018

⁽³⁾ Appointed 4 April 2018

⁽⁴⁾ Appointed 10 October 2016, resigned 8 November 2017

⁽⁵⁾ Resigned on 10 October 2016 as Managing Director and remains Chief Executive Officer

⁽⁶⁾ Resigned 10 October 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Opinion

We have audited the financial statements of Structural Monitoring Systems Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2018 which comprise of the group and parent company Statement of comprehensive income, group and parent company Statement of financial position, group and parent company Statement of cash flows, group and parent company Statement of changes in equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group and parent company financial statements 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 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 company 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require

us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition accounting

Risk:

The Group acquired a new subsidiary during the year, Anodyne Electronics Manufacturing Corp ("AEM"), for consideration of \$11.0m. This has given rise to the recognition of goodwill and intangible assets to the value of \$4.1m on acquisition. This valuation of the intangible assets is subject to the judgements and estimates in arriving at the fair values attributable to these intangible assets.

The significant estimates and judgements applied by management in determining the fair values attributed to the assets and liabilities acquired as part of the AEM acquisition is discussed on page 34 of the financial statements. Note 26 to the financial statements discloses the fair values ascribed to the net assets acquired.

Our response:

We reviewed the Group's accounting for the AEM acquisition and challenged management on the key assumptions and judgements used, particularly in relation to the fair value ascribed to the technology and certification intangible assets recognised. We used our internal valuations team to assess the valuation models prepared by management in respect of the acquisition including the basis and methodology adopted for identifying separate intangibles distinct from goodwill.

We considered whether the disclosures regarding the acquisition accounting were adequate and properly reflected in the financial statements.

Share-based payments

Risk:

The Group granted performance right options to directors and executives of the Group during the year. This has given rise to the recognition of a share-based payment charge of \$1.9m. These options have vesting conditions based on share price barriers. The valuation of the fair value attributable to these options is subject to judgement and estimates.

The significant estimates and judgements applied by management in determining the fair value attributed to these options is discussed on page 33 of the financial statements. Note 23 to the financial statements discloses the inputs used in the valuation of these performance rights.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Our response:

We reviewed the Group's accounting for the share-based payment transactions and challenged management on the key assumptions and judgements used. We used our internal valuations team to assess the valuation model and inputs to the model, prepared by management in respect of the fair value of these performance rights.

We considered whether the disclosures regarding the share-based payments were adequate and properly reflected in the financial statements.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as A\$246,000 which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of A\$10,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its control environment and assessing the risks of material misstatement. The financial statements were audited on a consolidated basis using Group materiality. The scope of our audit covered 100% of both consolidated loss before tax and consolidated net assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

RSM UK Audit LLP

PAUL WATTS (Senior Statutory Auditor)
For and behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

Date: 31 August 2018

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 31 August 2018.

(a) Distribution of CDI securities

Range	Total holders	Units	% Units
1 - 1,000	601	345,234	0.30
1,001 - 5,000	909	2,609,420	2.27
5,001 - 10,000	454	3,554,685	3.10
10,001 - 100,000	812	25,602,730	22.29
100,001 Over	137	82,736,399	72.04
Rounding			0.00
Total	2,913	114,848,468	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 1.2000 per unit	417	196	24,525

(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 Special Situations LLC	23,862,500

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	% Units
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,281,991	25.50
2	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	3,989,112	3.47
3	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,738,845	3.26
4	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	2,500,000	2.18
5	MR TOBY ROBERT SECRETAN CHANDLER	2,016,186	1.76
6	MR STEPHEN CAMPBELL FORMAN	1,900,000	1.65
7	CITICORP NOMINEES PTY LIMITED	1,765,428	1.54
8	STRAIGHT LINES CONSULTANCY PTY LTD <STRAIGHT LINES CONSULT A/C>	1,745,293	1.52
9	MR PAUL COZZI	1,714,866	1.49
10	ANODYNE ELECTRONICS HOLDING CORP	1,320,000	1.15
11	BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,214,121	1.06
12	ROSHERVILLE PTY LTD <THE AYTON SUPER A/C>	1,210,000	1.05
13	LANDMARK CONSTRUCTION PTY LTD <MEYER SHIRCORE UNIT S/F A/C>	1,066,679	0.93
14	J P MORGAN NOMINEES AUSTRALIA LIMITED	923,422	0.80
15	MR DAVID MICHAEL BROWN <DB ENTERPRISES MANAGEMENT FUND A/C>	900,000	0.78
16	AVANTEOS INVESTMENTS LIMITED <4358776 DEBRA A/C>	880,000	0.77
17	MR ROSS MALCOLM SPENCER + MR CLINTON LEON SPENCER <SPENCER FAMILY SUPERFUND A/C>	862,520	0.75
18	BACTENCE PTY LTD <PYNFITE BACTENCE S/FUND A/C>	850,000	0.74
19	MR JEFFREY FRANK HALIBURTON	800,000	0.70
20	KINETIC TRADE PTY LTD <THE SKINNER S/F A/C>	688,500	0.60
Totals: Top 20 holders of CHESS DEPOSITORY INTEREST (Total)		59,366,963	51.69
Total Remaining Holders Balance		55,481,505	48.31

CORPORATE GOVERNANCE STATEMENT

The Company has established, and continues to refine and improve procedures to ensure a culture of good corporate governance exists and is respected across the consolidated entity.

The Company has a written policy designed to ensure compliance with ASX Listing Rules and all other regulatory requirements for disclosures. Additionally the Company has adopted a policy designed to ensure procedures to implement the policy are suitable and effective.

The Board wishes to acknowledge that nothing has come to its attention that would lead it to conclude that its current practices and procedures are not appropriate for an organisation of the size and maturity of the Company. The Corporate Governance Policy and the Company's corporate governance practices is set out on the Company's web site at www.smsystems.com.au.

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

Michael Reveley (Chair)

Sam Wright

Toby Chandler

There were no meetings of the audit committee.

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

Michael Reveley (Chair)

Sam Wright

Toby Chandler

There were no meetings of the remuneration committee.

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 material 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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).