Structural Monitoring Systems Plc

Annual Report
2012

Corporate Directory

BOARD OF DIRECTORS

Mr Toby Chandler
Managing Director

Mr Andrew Chilcott
Non Executive Director

Mr Michael Reinstein
Non Executive Director

COMPANY SECRETARY
Mr Sam Wright

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STOCK EXCHANGE LISTING
Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
Code: SMN
Code: SMNO
Code: SMNOA

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www.smsystems.com.au

STRUCTURAL MONITORING SYSTEMS PLC
Mailing Address
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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).

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2012.

DIRECTORS

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

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

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

Andrew Chilcott appointed on 1 March 2012
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.

Michael Reinstein appointed on 30 November 2011
Michael Reinstein is the Managing Director of Archetype Capital, a Los Angeles-based private equity firm. Archetype's holdings include a diverse portfolio of companies in the automotive aftermarket, beauty, healthcare and e-commerce space. Throughout his career, Mr. Reinstein has built and sold technology and media companies in both the private and public markets.

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

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

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

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

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

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

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

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

Sam Wright (Non-Executive Director/Company Secretary) Resigned on 29 February 2012
Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. He is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the Chartered Secretaries of Australia.

Mr Wright is currently a Non-Executive Director and Company Secretary of ASX listed companies, Buxton Resources Limited, PharmAust Limited and Structural Monitoring Systems plc. He is also Company Secretary for ASX listed companies, Cove Resources Limited and Mount Magnet South NL.

Mr Wright has also filled the role of Director and Company Secretary with a number of unlisted companies. He is the principal of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies.

Richard Evans (Non-Executive Director) Resigned on 29 February 2012
Mr Evans holds a Bachelor of Economics and a Bachelor of Laws (majoring in Intellectual Property) and has held positions with a number of law firms in Perth and New York.

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS

PRINCIPAL ACTIVITIES

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

EXPLANATION OF RESULTS

Structural Monitoring Systems plc continued to make meaningful commercial progress through the year, and achieved some further important milestones. The Company continued to progress and develop key relationships, and importantly, made measurable inroads towards a more efficient and sustainable corporate structure.

The Board has reviewed all corporate operations to ensure it is operating appropriately with a view to provide significant savings to the Company to increase value for our shareholders. The Company, as planned, opened its US representative office in Beverly Hills, CA and in doing so greatly enhanced its long term ability to optimize customer interface functions.

OPERATIONS, PROJECTS, RESEARCH & DEVELOPMENT, ORDERS & DELIVERIES

The Company continued to evaluate strategies that would aim to greatly alleviate the time and resource constraints involved with full in-situ manufacturing of all hardware, components and peripherals. On 12 June 2012, the Company announced the relocation of operational functions to North America and the establishment of a key commercial relationship with Anodyne Electronic Manufacturing Corporation - a highly regarded aircraft OEM supplier and AS9100C certified manufacturing facility domiciled in British Columbia, Canada.

As highlighted previously, Structural Monitoring Systems plc personnel spent several days at Embraer's main campus in San Paulo, Brazil and successfully completed the installation of Structural Monitoring Systems plc's evolving In-Flight System ("IFS") and associated onsite training of Embraer's technical personnel. Subsequently, key personnel from both companies, and Sandia Corporation, met during the 8th Annual International Workshop on Structural Health Monitoring ("IWSHM") in Stanford, CA, to discuss the development of a roadmap to bring our patented CVM™-related technologies to commercial reality in the foreseeable future.

The Company has continued to build upon its key relationships with major players in the global aerospace sector – and we have been especially encouraged by the meaningful advancement in CVM™ as a highly regarded - and highly relevant - technology in the field of non-destructive testing/inspection methods pertaining to structural health monitoring. This was clearly evidenced at the IWSHM Conference, where notable speakers from Embraer S.A. and Sandia Corporation chose to give unsolicited keynote presentations related to the clear benefits and commercial promise offered by SMN's CVM™ technology suite.

We are making real inroads towards the foreseeable full commercialization of CVM™, and have been assisted by some of the world's most important research and technical organizations to this end. The recently signed MOU with Sandia National Laboratories, an extremely important US research facility and "think tank", has deepened the relationship between SMS and Sandia and has assured diligent progress towards the eventual full FAA certification of SMS technology. Similar advances towards full commercialization are being made with major aircraft operators and OEMs. When CVM™ attains commercial viability, SMS will ultimately realize annual revenues that will be many multiples of the Company's current market capitalization.

DIRECTORS' REPORT (continued)

The Board is confident that we will see a noticeable pickup in commercial orders over the coming year, and that a greater number of established customers will be testing and evaluating CVM™ as a truly viable commercial application in the aerospace sector. We further expect to generate meaningful cash flow infusions from future sales to major aerospace OEMs and aircraft operators. We presently have formal quotes pending with two of the world's dominant OEMs. The first quote is for $32,035 and the second for $14,950. We expect to receive purchase orders for these two quotes in the next few weeks, and we anticipate it will cost us 50% of the quoted amount to construct and fulfill each order. Further down the order pipeline we are working with the key Latin American aerospace OEM on a major project for which has been ongoing for almost three years. We have provided this OEM with a preliminary cost estimate and expect this project to yield an order for more than $200,000 in the coming months.

SHAREHOLDER MEETINGS

On 30th November 2011, the Company held its Annual General Meeting of Shareholders at Level 5, 56 Pitt Street, Sydney, New South Wales. All resolutions that were put were passed on a show of hands.

The Company held a General Meeting of Shareholders at 8 St Georges Terrace, Perth, Western Australia on 16th April 2012. All resolutions that were put were passed on a show of hands.

CAPITAL RAISING

On 30th December 2011, the Company announced that it has raised $500,000 through the placement of 5,000,000 shares at 10 cents per share along with one free attaching option for every share purchased exercisable at 8.5 cents and expiry 1 July 2013 pursuant to section 708 of the Corporations Act.

The placement of shares and options was completed with a prominent New York-based hedge fund, and was consistent with SMN senior management's goal of bringing a greater institutional presence to the Company's share registry.

And earlier this year, SMS issued 2,000,000 shares to a high net worth individual in the United States again at 10 cents per share.

The Company is confident that this trend towards a greater sophisticated investor presence will continue with further institutional additions to the share registry over the coming year.

Both raisings were priced at a premium to the current share price reflecting the growing confidence of new institutional shareholders in the Company's achievements over recent quarters and the improved business model and growth strategy looking ahead.

The funds raised will be used to fund the Company's broadening research and development programmes, and to provide general working capital.

BOARD CHANGES

On 1st March 2012, the Company announced that Mr Andrew Chilcott has been appointed as a Non-Executive Director of the Company. 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.

Concurrently with the appointment of Mr Chilcott, Mr Richard Evans and Mr Sam Wright have resigned from their roles as independent Non-Executive Directors. Mr Wright will remain with the Company in the role of Company Secretary.

DIRECTORS' REPORT (continued)

CHANGE OF CORPORATE OFFICE

On 30th March 2012, the Company announced that the Corporate Office and Principal Place of Business have been relocated Suite 7, 29 The Avenue, Nedlands, Western Australia, providing a further reduction in corporate overhead expenses

8. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

UK company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under UK 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 and the company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group'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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The directors are responsible for making a declaration in relation to certain matters required to be dealt with in financial statements under the Australian Corporations Act 2001 and the Australian Securities Exchange Listing Rules. This declaration is set out on page 56.

DIRECTORS' REPORT (continued)

9. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years

10. RESULTS AND DIVIDEND

The operating loss, after income tax, for the year was $1,266,990 (2011: $1,253,182). No dividends were proposed or paid during the financial year.

11. SHARE CAPITAL

The impact on share capital and share premium account of the share issues in the year, is disclosed in Note 18 to the Financial Statements.

12. DIRECTORS MEETINGS

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

	Board Meetings		Audit Committee		Remuneration Committee	
Director	A	B	A	B	A	B
T Chandler	3	3	1	1	-	-
M Reinstein	1	1	-	-	-	-
A Chilcott	-	-	-	-	-	-
S Wright	3	3	1	1	-	-
R Evans	3	3	-	-	-	-

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

DIRECTORS' REPORT (continued)

13. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

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

	Primary	Post Employment	Other	Equity	Total
30 June 2012	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Sam Wright*#	95,000	7,987	-	21,700	124,687
Toby Chandler	122,043	-	-	48,050	170,093
Andrew Chilcott	6,818	-	-	9,300	16,118
Richard Evans#	10,833	-	-	7,750	18,583
Michael Reinstein	-	-	-	9,300	9,300
Total Specified Directors	**234,694**	**7,987**	**-**	**96,100**	**338,781**
Grand Total	**234,694**	**7,987**	**-**	**96,100**	**338,781**

	Primary	Post Employment	Other	Equity	Total
30 June 2011	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Sam Wright*	69,167	8,475	-	20,000	97,642
Toby Chandler	20,000	-	-	-	20,000
Andrew Caminschi	32,500	2,363	-	-	34,863
Robin Dean	12,500	1,875	-	8,888	23,263
Mark Vellacott	91,667	8,250	-	-	99,917
Richard Evans	19,166	-	-	-	19,166
Malcolm Richmond	6,250	844	-	1,281	8,375
Total Specified Directors	**251,250**	**21,807**	**-**	**30,169**	**303,226**
Specific Executives					
Colin McDonald	45,069	4,056	-	-	49,125
Total Specified Executives	**45,069**	**4,056**	**-**	**-**	**49,125**
Grand Total	**296,319**	**25,863**	**-**	**30,169**	**352,251**

The remuneration policy of the Group is outlined in Note 24 (b) in the Notes to the Financial Statements.
* Sam Wrights Salary and Fees include both Director and Company Secretary fees. Note further that Sam Wright only received Directors Fees for 8 months of the year upon his resignation as a Director.

Resigned as director during the year.

DIRECTORS' REPORT (continued)

14. OPTIONS GRANTED AS COMPENSATION

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

No shares were issued on exercise of remuneration options.

15. SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

Director	Date Appointed	Ordinary Shares	Percentage of total issued shares of the Company	Options remaining in issue
Specified Directors				
Toby Chandler	2 May 2011	3,533,518	5.62%	-
Andrew Chilcott	1 March 2012	150,000	0.24%	-
Michael Reinstein	30 November 2011	150,000	0.24%	-
Total		**3,833,518**	**6.10%**	**-**

The above relates to share and option holdings as at 30 June 2012.

DIRECTORS' REPORT (continued)

16. AUDITORS

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

	CONSOLIDATED		*PARENT*	
	2012 *$*	*2011* *$*	*2012* *$*	*2011* *$*
Amounts received or due and receivable RSM Tenon Audit Limited for:				
• an audit or review of the financial report of the entity and the Group	26,680	21,176	26,680	21,176
Amounts received or due and receivable by RSM Bird Cameron Partners for:				
• an audit or review of the financial report of the principal trading subsidiary	40,000	30,000	-	-
• other services in relation to the entity and any other entity in the Group – tax compliance	5,250	5,250	3,000	3,000
	71,930	56,426	29,680	24,176

17. INFORMATION GIVEN TO AUDITORS

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

18. CREDITOR PAYMENT POLICY

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2013. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2012, the Group's trade creditors represented 13.56 days' purchases (2011: 50.69 days).

DIRECTORS' REPORT (continued)

19. FINANCIAL INSTRUMENTS

The Group does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk or liquidity risk. Further information is provided in note 19 to the Financial Statements.

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

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

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

20. KEY PERFORMANCE INDICATORS

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

21. PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks facing the Group are detailed in note 19 of the Directors' Report. In addition, the group faces the commercial risks of obtaining additional financing, of sustaining quality of service delivery, of staff retention and of the ability to renew or extend in-licensing or other strategic partnership agreements with a third-party. The directors continuously monitor these risks, both, formally at Board meetings and informally throughout the year, particularly during the strategic planning and budgeting processes.

By Order of the Board

Toby Chandler
Managing Director
31 August 2012

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 June 2012

		CONSOLIDATED		*PARENT*	
		2012	*2011*	*2012*	*2011*
	Note	*$*	*$*	*$*	*$*
Continuing Operations					
Revenue					
Sale of goods		113,858	302,140	-	-
Cost of sales		(48,289)	(130,664)	-	-
Gross profit		65,569	171,476	-	-
Other income	4(a)	1,193	9,473	-	-
Depreciation charges	4(c)	(8,151)	(6,842)	-	-
Impairment charges	4(d)	-	-	(893,575)	(706,493)
Occupancy expenses		(114,225)	(111,093)	(3,123)	-
Research and development expenses	4(f)	(190,838)	(332,664)	-	-
Administrative expenses		(1,021,516)	(973,412)	(370,292)	(422,335)
Loss from continuing operations before income tax and finance costs		(1,267,968)	(1,243,062)	(1,266,990)	(1,128,828)
Finance income	4(b)	978	8,831	-	524
Foreign currency translations	4(c)	-	(18,951)	(426)	15,776
Income tax expenses	5(a)	-	-	-	-
Loss after finance costs and tax from continuing operations		(1,266,990)	(1,253,182)	(1,267,416)	(1,112,528)
Loss attributable to members of the parent		(1,266,990)	(1,253,182)	(1,267,416)	(1,112,528)
Other comprehensive income					
Foreign currency translations		(426)	15,776	-	-
Total Comprehensive Income for the Period attributable to members of the parent		(1,267,416)	(1,237,406)	(1,267,416)	(1,112,528)
Loss per share ($ per share)					
- basic for loss from continuing operations	6	(2.23)	(2.81)		
- diluted for loss from continuing operations	6	(2.23)	(2.81)		

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 June 2012

	Note	*CONSOLIDATED* 2012 $	*CONSOLIDATED* 2011 $	*PARENT* 2012 $	*PARENT* 2011 $
ASSETS					
Non-Current Assets					
Property, plant and equipment	7	-	4,685	-	-
Investment in subsidiaries	8	-	-	74,128	480,559
Total Non-current assets			4,685	74,128	480,559
Current Assets					
Inventories	10	-	12,213	-	-
Prepayments	12	10,105	-	-	-
Trade and other receivables	11	-	92,775	-	-
Cash and cash equivalents	13(b)	142,427	590,543	-	389
Total Current Assets		152,532	695,531	-	389
TOTAL ASSETS		152,532	700,216	-	480,948
LIABILITIES					
Current Liabilities					
Trade and other payables	16	93,009	218,466	14,605	8,278
Provisions	17	-	9,080	-	-
Total Current Liabilities		93,009	227,546	14,605	8,278
TOTAL LIABILITIES		93,009	227,546	14,605	8,278
NET ASSETS		59,523	472,670	59,523	472,670
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	18	31,668,909	31,617,416	31,668,909	31,617,416
Share premium account	18	13,066,294	12,334,669	13,066,294	12,334,669
Accumulated losses		(42,976,237)	(41,709,247)	(42,936,997)	(41,669,581)
Other reserves		(1,699,443)	(1,770,168)	(1,738,683)	(1,809,834)
TOTAL EQUITY		59,523	472,670	59,523	472,670

Approved by the Board and authorised for issue on 31 August 2012

……………………………………….Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 June 2012

		CONSOLIDATED		*PARENT*	
		2012	*2011*	*2012*	*2011*
	Note	*$*	*$*	*$*	*$*
Cash flows from operating activities					
Receipts from customers		188,904	311,103	-	-
Payments to suppliers and employees		(1,343,799)	(1,323,023)	(221,320)	(221,659)
Other income		1,193	9,424	-	-
Net cash flows used in operating activities	13(a)	(1,153,702)	(1,002,496)	(221,320)	(221,659)
Cash flows from investing activities					
Interest received		978	8,831	-	524
Purchase of property, plant and equipment		(3,466)	(1,973)	-	-
Net cash flows from investing activities		(2,488)	6,858	-	524
Cash flows from financing activities					
Proceeds from issue of shares (net of costs)		708,500	1,390,700	708,500	1,390,700
Loan to subsidiary		-	-	(487,143)	(1,187,052)
Net cash flows from financing activities		708,500	1,390,700	221,357	203,648
Net (decrease) / increase in cash and cash equivalents		(447,690)	395,062	37	(17,487)
Net foreign exchange differences		(426)	15,776	(426)	15,776
Cash and cash equivalents at beginning of year		590,543	179,705	389	2,100
Cash and cash equivalents at end of year		142,427	590,543	-	389

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 June 2012

CONSOLIDATED	Issued Capital	Accumulated Losses	Share Premium Reserve	Share Based Payment Reserve	Foreign Exchange Reserves	Total
	$	$	$	$	$	$
At 1 July 2010	30,794,209	(40,456,065)	11,861,031	199,357	(2,286,351)	112,181
Currency translation differences	-	-	-	-	15,776	15,776
Loss for the year	-	(1,253,182)	-	-	-	(1,253,182)
Total comprehensive loss for the year	-	(1,253,182)	-	-	15,776	(1,237,406)
Cost of share based payments	-	-	-	301,050	-	301,050
Issue of share capital	823,207	-	750,758	-	-	1,573,965
Cost of share issues	-	-	(277,120)	-	-	(277,120)
At 30 June 2011	31,617,416	(41,709,247)	12,334,669	500,407	(2,270,575)	472,670
Currency translation differences	-	-	-	-	(426)	(426)
Loss for the year	-	(1,266,990)	-	-	-	(1,266,990)
Total comprehensive loss for the year	-	(1,266,990)	-	-	(426)	(1,267,416)
Cost of share based payments	-	-	-	71,151	-	71,151
Issue of share capital	51,493	-	803,547	-	-	855,040
Cost of share issues	-	-	(71,922)	-	-	(71,922)
At 30 June 2012	31,668,909	(42,976,237)	13,066,294	571,558	(2,271,001)	59,523

PARENT	Issued Capital	Accumulated losses	Share Premium Reserve	Share Based Payment Reserve	Foreign Exchange Reserves	Total
	$	$	$	$	$	$
At 1 July 2010	30,794,209	(40,557,053)	11,861,031	199,357	(2,310,241)	(12,697)
Loss for the year	-	(1,112,528)	-	-	-	(1,112,528)
Total comprehensive loss for the year	-	(1,112,528)	-	-	-	(1,112,528)
Cost of share based payments	-	-	-	301,050	-	301,050
Issue of share capital	823,207	-	750,758	-	-	1,573,965
Cost of share issues	-	-	(277,120)	-	-	(277,120)
At 30 June 2011	31,617,416	(41,669,581)	12,334,669	500,407	(2,310,241)	472,670
Loss for the year	-	(1,267,416)	-	-		(1,267,416)
Total comprehensive loss for the year	-	(1,267,416)	-	-	-	(1,267,416)
Cost of share based payments	-	-	-	71,151	-	71,151
Issue of share capital	51,493	-	803,547	-	-	855,040
Cost of share issues	-	-	(71,922)	-	-	(71,922)
At 30 June 2012	31,668,909	(42,936,997)	13,066,294	571,558	(2,310,241)	59,523

Notes to the Financial Statements

FOR THE YEAR ENDED 30 June 2012

1 CORPORATE INFORMATION

The financial report of Structural Monitoring Systems Plc for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 31 August 2012.

Structural Monitoring Systems Plc is a company limited by shares incorporated in the United Kingdom whose shares are publicly traded on the Australian Securities Exchange (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 and are prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union. The exchange rate at the reporting date was £1:$1.536 and the average for the year was £1:$1.535.

(b) Going Concern

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

As disclosed in the financial statements, the company and consolidated entity incurred losses of $1,267,416 and $1,266,990 respectively and had net cash outflows from operating activities of $221,320 and $1,153,702 respectively for the year ended 30 June 2012. As at that date the company had net current liabilities of $14,605.

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

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

- Ability to issue additional shares in the company to raise capital in accordance with the *Corporation Act 2001*;
- Further commercial exploitation of the company's technologies and products at amounts sufficient to meet proposed expenditure commitments; and
- Ability to further reduce operational cost levels, to conserve cash in the event that capital raisings are delayed or partial. It is noted that expense reduction efforts thus far, have resulted in significant cost savings by decreasing staff numbers, reducing the company's office space footprint and outsourcing its laboratory and workshop functions.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Statement of compliance

The consolidated financial statements and the financial statements of the parent company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the European Union. The financial statements have been prepared in accordance with the Companies Act 2006 and parts of the Australian *Corporations Act 2001* that apply to them.

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

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

(d) Accounting standards and Interpretations

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

(e) Basis of consolidation

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

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

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

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

Business Combinations

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

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

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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group entities

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

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

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

All resulting exchange differences are recognised as a separate component of equity.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

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

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

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

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

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

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

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

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

(h) Intangible Assets

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

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Recoverable amount of assets

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

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

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

(j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials - purchase cost on a first-in, first-out basis; and

Finished goods and work-in-progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

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

(k) Trade and other receivables

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

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

(l) 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) Share-based payment transactions

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

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

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

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

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

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

(o) 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax

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

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

(q) 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.

(r) Employee Entitlements

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

(s) Trade and other payables

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

(t) 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Critical accounting estimates and judgements

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

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

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions. Those which may materially affect the carrying amounts of assets and liabilities reported in future periods are discussed below.

Impairment of non-financial assets

The Company assesses impairment on all assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. These include technology and economic environments. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate a number of key estimates and assumptions.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(**v**) New accounting standards for application in future period

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

Reference	Title	Summary	Application date (financial years beginning)
IFRS 9	Financial Instruments	Replaces the requirements of IAS 39 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013
IFRS 10	*Consolidated Financial Statements*	Replaces the requirements of IAS 27 and Interpretation 112 pertaining to the principles to be applied in the preparation and presentation of consolidated financial statements.	1 January 2013
IFRS 11	*Joint Arrangements*	Replaces the requirements of IAS 31 pertaining to the principles to be applied for financial reporting by entities that have in interest in arrangements that are jointly controlled.	1 January 2013
IFRS 12	*Disclosure of Interests in Other Entities*	Replaces the disclosure requirements of IAS 27 and IAS 31 pertaining to interests in other entities.	1 January 2013
IAS 27	*Separate Financial Statements*	Prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	1 January 2013
IFRS 13	*Fair Value Measurement*	Provides a clear definition of fair value, a framework for measuring fair value and requires enhanced disclosures about fair value measurement.	1 January 2013
IAS 19	*Employee Benefits*	Prescribes the accounting and disclosure for employee benefits. This Standard prescribes the recognition criteria when in exchange for employee benefits.	1 January 2013

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

3 SEGMENT INFORMATION

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

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

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

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2012 and 2011:

	Australia	*US*	*UK*	*Total*
	$	*$*	*$*	*$*
Year ended 30 June 2012				
Revenue				
Sales to external customers	-	106,490	7,368	113,858
Finance income	978	-	-	978
Other operating income from external parties	1,193	-	-	1,193
Revenue from continuing operations	2,171	106,490	7,368	116,029
Inter-segment sales	-	-	-	-
Segment revenue	2,171	106,490	7,368	116,029
Sales revenue by customer location				
Australasia	-	-	-	-
Europe	-	-	-	-
Americas	-	106,490	7,368	113,858
Total revenue	-	106,490	7,368	113,858
Result				
Segment result	(769,335)	(131,607)	(366,048)	(1,266,990)
Unallocated expenses	-	-	-	-
Loss before tax	-	-	-	-
Income tax credit	-	-	-	-
Loss for the year	-	-	-	-
Assets and liabilities				
Segment assets	15,571	136,961	-	152,532
Unallocated assets	-	-	-	-
Total assets	15,571	136,961	-	152,532
Segment liabilities	27,028	48,521	17,460	93,009
Unallocated liabilities	-	-	-	-
Total liabilities	27,028	48,521	17,460	93,009
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	8,151	-	-	8,151

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

3 SEGMENT INFORMATION (continued)

Year ended 30 June 2011	*Australia*	*US*	*UK*	*Total*
Revenue	*$*	*$*	*$*	*$*
Sales to external customers	142,557	159,583	-	302,140
Finance income	8,307	-	524	8,831
Other operating income from external parties	9,473	-	-	9,473
Revenue from continuing operations	160,337	159,583	524	320,444
Inter-segment sales	-	-	-	-
Segment revenue	160,337	159,583	524	320,444
Sales revenue by customer location				
Australasia	16,516	-	-	16,516
Europe	126,041	-	-	126,041
USA	-	159,583	-	159,583
Total revenue	142,557	159,583	-	302,140
Result				
Segment result	(990,955)	159,583	(421,810)	(1,253,182)
Unallocated expenses	-	-	-	-
Loss before tax	(990,955)	159,583	(421,810)	(1,253,182)
Income tax credit	-	-	-	-
Loss for the year	(990,955)	159,583	(421,810)	(1,253,182)
Assets and liabilities				
Segment assets	699,827	-	389	700,216
Unallocated assets	-	-	-	-
Total assets	699,827	-	389	700,216
Segment liabilities	219,268	-	8,278	227,546
Unallocated liabilities	-	-	-	-
Total liabilities	219,268	-	8,278	227,546
Other segment information				
Capital expenditure	-	-	-	-
Depreciation	4,869	-	-	4,869

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

3 SEGMENT INFORMATION (continued)

	2012 *$*	*2011* *$*	*2012* *%*	*2011* *%*
Major customers				
During the year, 3 customers (2011: 3) each accounted for more than 10% of the Group's revenues.				
Customer 1	99,216	159,583	87	53
Customer 2	7,368	37,975	7	12
Customer 3	7,274	34,135	6	11
	113,858	231,693	100	76

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

4 INCOME AND EXPENSES

(a) Other income

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $	PARENT 2012 $	PARENT 2011 $
Gain on sale of asset	-	5,237	-	-
Tax refunds	1,193	2,092	-	-
Sundry income	-	2,144	-	-
	1,193	9,473	-	-

(b) Finance income

Bank interest	978	8,831	-	524
	978	8,831	-	524

(c) Depreciation, amortisation and foreign exchange differences included in statement of comprehensive income

Depreciation	(8,151)	(6,842)	-	-
Net foreign exchange differences	-	(18,951)	426	15,776
	(8,151)	(25,793)	426	15,776

(d) Impairment charges

Impairment of investment in subsidiary	-	-	893,575	706,493
	-	-	893,575	706,493

(e) Employee benefits expense

Wages and salaries	211,889	330,903	-	-
Workers' compensation costs	-	5,490	-	-
Superannuation costs	27,536	44,767	-	-
Social security costs	-	-	-	-
	239,425	381,160	-	-

	No	No	No	No
Average monthly number of employees				
Administration	2	2	-	-
Business development	-	-	-	-
Operations and technical	2	2	-	-
Total average employees	4	4	-	-

(f) Research and development costs

Research and development costs expensed	190,838	332,664	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

5 INCOME TAX

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*

Major components of income tax expense for the years ended 30 June 2012 and 30 June 2011 are:

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

A reconciliation of income tax expense applicable to accounting profit 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 2012 and 2011 is as follows:

Accounting loss before tax from continuing operations	(1,266,990)	(1,253,182)	(1,267,416)	(1,112,528)
Accounting loss before income tax	(1,266,990)	(1,253,182)	(1,267,416)	(1,112,528)
At the statutory income tax rate of 30% (2011:30%)	(380,097)	(375,955)	(380,225)	(333,758)
Expenditure not allowable for income tax purposes	97,948	1,276	58,350	1,089
Research and development benefit	-	-	-	-
Deferred tax asset not recognised	282,149	374,679	321,875	332,669
Income tax credit reported in statement of comprehensive income	-	-	-	-

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
CONSOLIDATED	$	$	$	$	$	$
Accrued expenses	-	3,150	(11,881)	-	(11,881)	3,150
Employee entitlement provisions	-	1,287	-	-	-	1,287
Superannuation accrued	-	2,620	-	-	-	2,620
Costs deductible over five years	22,717	6,047	-	-	22,717	6,047
Patents and trademarks	17,059	-	-	-	17,059	-
Property plant and equipment	-	18,929	-	-	-	18,929
Tax losses	10,654,706	10,372,999	-	-	10,654,706	10,372,999
Tax (assets) liabilities	10,694,482	10,405,032	(11,881)	-	10,682,601	10,405,032
Amount not recognised	(10,694,482)	(10,405,032)	11,881	-	(10,682,601)	(10,405,032)
Net tax (assets) liabilities	-	-	-	-		-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

5 INCOME TAX (continued)

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
PARENT	$	$	$	$	$	$
Accrued expenses	-	-	(4,381)	-	(4,381)	-
Costs deductible over five years	22,717	20,425	-	-	22,717	20,425
Property plant and equipment	-	-	-	(123)	-	(123)
Loan receivable	480,020	211,947	-	-	480,020	211,947
Tax losses	1,492,931	1,423,203	-	-	1,492,931	1,423,203
Tax (assets) liabilities	1,995,668	1,655,575	(4,381)	(123)	1,991,287	1,655,452
Amount not recognised	(1,995,668)	(1,655,575)	4,381	123	(1,991,287)	(1,655,452)
Net tax (assets) liabilities	-	-	-	-	-	-

Unrecognised deferred tax assets

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Provisions	-	7,057	-	-
Property, plant and equipment	-	18,929	-	-
Impairment of investments	-	-	480,020	211,947
Patents	17,059	-	-	-
Capital raising costs	22,717	6,047	22,717	20,425
Tax losses	10,654,706	10,372,999	1,492,931	1,423,203
	10,694,482	10,405,032	1,995,668	1,655,575

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

6 LOSS PER SHARE

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

Diluted earnings per share has not been calculated as there were no options on issue which would be potential ordinary shares having a dilutive effect. The number of anti dilutive options at 30 June 2012 was 32,677,098 (2011: 237,771,516). Movement due to the share consolidation carried out in November 2011 on a 10 to 1 basis.

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

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Net loss attributable to equity holders from continuing operations	(1,266,990)	(1,253,182)
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for basic loss per share*	56,716,067	44,646,341
Weighted average number of ordinary shares for diluted loss per share*	56,716,067	44,646,341

*Due to reconstruction of share capital during the year, the loss per share calculation for 30 June 2011 has been restated based on post consolidation basis.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

7 PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED			*PARENT*	
	Leasehold Improvements $	*Plant and equipment* $	*Total* $	*Plant and equipment* $	*Total* $
Year ended 30 June 2012					
Cost					
At 1 July 2011	154,079	885,491	1,039,570	29,606	29,606
Additions	-	3,466	3,466	-	-
Disposals	-	(3,466)	(3,466)	-	-
At 30 June 2012	154,079	885,491	1,039,570	29,606	29,606
Depreciation					
At 1 July 2011	154,079	880,806	1,034,885	29,606	29,606
Charge for the year	-	8,151	8,151	-	-
Eliminated on disposal	-	(3,466)	(3,466)	-	-
At 30 June 2012	154,079	885,491	1,039,570	29,606	29,606
Written down value at 30 June 2012	-	-	-	-	-
Year ended 30 June 2011					
Cost					
At 1 July 2010	154,079	891,789	1,045,868	29,606	29,606
Additions	-	1,973	1,973	-	-
Disposals	-	(8,271)	(8,271)	-	-
At 30 June 2011	154,079	885,491	1,039,570	29,606	29,606
Depreciation					
At 1 July 2010	154,079	882,235	1,036,314	29,606	29,606
Charge for the year	-	6,842	6,842	-	-
Eliminated on disposal	-	(8,271)	(8,271)	-	-
At 30 June 2011	154,079	880,806	1,034,885	29,606	29,606
Written down value at 30 June 2011	-	4,685	4,685	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

8 INVESTMENTS IN SUBSIDIARIES

	Loan to Subsidiary Undertaking	*PARENT Investment in Subsidiary Undertaking*	*Total*
	$	*$*	*$*
Year ended 30 June 2012			
Cost			
At 1 July 2011	-	38,062,225	38,062,225
Arising during the year	487,144	-	487,144
Reclassification of loan as investment	(487,144)	487,144	-
At 30 June 2011	-	38,549,369	38,549,369
Impairment			
At 1 July 2011	-	37,581,666	37,581,666
Impairment charge	-	893,575	893,575
	-	38,475,241	38,475,241
Net carrying amount at 30 June 2012	-	74,128	74,128
Year ended 30 June 2011			
Cost			
At 1 July 2010	-	36,875,173	36,875,173
Arising during the year	1,187,052	-	1,187,052
Reclassification of loan as investment	(1,187,052)	1,187,052	-
At 30 June 2011	-	38,062,225	38,062,225
Impairment			
At 1 July 2010	-	36,875,173	36,875,173
Impairment charge	-	706,493	706,493
	-	37,581,666	37,581,666
Net carrying amount at 30 June 2011	-	480,559	480,559

The intercompany loan was reclassified as an investment as at 30 June 2012 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cash flows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the loan is likely to be the nature of an investment. The investment has had an impairment charge applied to write the balance down to net asset of the subsidiary.

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

	County of Incorporation	**Type of equity**	**% Equity Interest**	
			2012	**2011**
At cost			**%**	**%**
Structural Monitoring System Limited	Australia	Ordinary share	100	100

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

9 INTANGIBLE ASSETS

	CONSOLIDATED				*PARENT*
	Goodwill *$*	*Technology Licence* *$*	*Patents and licence* *$*	*Total* *$*	*Total* *$*
Year ended 30 June 2012					
Cost					
At 1 July 2011 and 30 June 2012	20,868,694	125,000	1,760,616	22,754,310	-
Impairment					
At 1 July 2011 and 30 June 2012	(20,868,694)	-	-	(20,868,694)	-
Amortisation					
At 1 July 2011 and 30 June 2012	-	(125,000)	(1,760,616)	(1,885,616)	-
Net book value at 30 June 2012	-	-	-	-	-

	CONSOLIDATED				*PARENT*
	Goodwill *$*	*Technology Licence* *$*	*Patents and licence* *$*	*Total* *$*	*Total* *$*
Year ended 30 June 2011					
Cost					
At 1 July 2010 and 30 June 2011	20,868,694	125,000	1,760,616	22,754,310	-
Impairment					
At 1 July 2010 and 30 June 2011	(20,868,694)	-	-	(20,868,694)	-
Amortisation					
At 1 July 2010 and 30 June 2011	-	(125,000)	(1,760,616)	(1,885,616)	-
Net book value at 30 June 2011	-	-	-	-	-

10 INVENTORIES

	CONSOLIDATED		*PARENT*	
	2012 *$*	*2011* *$*	*2012* *$*	*2011* *$*
Work-in-progress (at cost)	-	-	-	-
Finished goods (at net realisable value)	-	12,213	-	-
Total inventories at lower of cost and net realisable value	-	12,213	-	-

Movement in inventories are as follow:

	Work-in-progress	Finished Goods
At beginning of year	-	12,213
Amount used	-	(1,528)
Amount written off	-	(10,685)
At end of year	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

11 TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Trade receivables	-	92,775	-	-
	-	92,775	-	-

12 PREPAYMENT AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Prepayment	2,618	-	-	-
GST receivable	7,487	-	-	-
	10,105	-	-	-

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

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Net loss for the year	(1,266,990)	(1,253,182)	(1,267,416)	(1,112,528)
Adjustments for:				
Finance income	(978)	(8,831)	-	(524)
Depreciation and amortisation	8,151	6,842	-	-
Currency translation	-	-	426	(15,776)
Share based payments	146,539	207,195	146,539	207,195
Impairment of investment in subsidiary	-	-	893,574	706,493
Others	(770)	-	(771)	-
Changes in assets and liabilities				
Inventories	12,213	68,300	-	-
Trade and other receivables	82,670	(7,455)	-	-
Trade and other payables	(134,537)	(15,365)	6,328	(6,519)
Net cash used in operating activities	(1,153,702)	(1,002,496)	(221,320)	(221,659)

13(b) CASH AND CASH EQUIVALENTS

Cash at bank	142,427	590,543	-	389

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

14 EMPLOYEE BENEFITS

(a) Employees share option plan

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

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

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

b) Pensions and other post-employment benefit plans

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

15 SHARE BASED PAYMENTS

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Corporate services	146,540	167,250	146,540	167,250
Capital raising fee	71,922	133,800	71,922	133,800
	218,462	301,050	218,462	301,050

The company issued share and options to employees and professional advisors during the year in respect of services performed, and vested immediately. The maximum term of the options is 1.5 (2011:2.66) years. The movement in share options outstanding is shown in Note 18.

The following table sets out the assumptions made in determining the fair value of the options granted during the year ended 30 June 2012 and 30 June 2011.

2012	**Options Granted In November 2011**
Expected volatility (%)	160
Risk free interest rate (%)	4.9
Weighted average expected life of options (years)	1.5
Option exercise price (cents)	0.85
Share price at grant date (cents)	0.6
Fair value of option	$0.00356
Vesting date (100%)	30 November 2011

2011	**Options Granted In November 2010**
Expected volatility (%)	170
Risk free interest rate (%)	5.09
Weighted average expected life of options (years)	2.66
Option exercise price (cents)	0.85
Share price at grant date (cents)	0.8
Fair value of option	$0.00669
Vesting date (100%)	26 November 2010

Expected volatility has been determined by calculating the Group's share price over an 18 month period (2011: 23).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

15 SHARE BASED PAYMENTS (CONTINUED)

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

	Grant Date	Number
2012	24 April 2012	425,000
2012	12 December 2011	428,571
2011	26 November 2010	3,771,110

The weighted average fair value of those equity instruments, determined by reference to market price, was $0.07 (2011: $0.008).

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

Included under employee benefits expense in the statement of comprehensive income is $30,000 which relates to equity-settled share-based payment transactions (2011: $30,169).

16 TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Trade payables	93,009	154,842	14,605	-
Accruals and deferred income	-	63,624	-	8,278
	93,009	218,466	14,605	8,278

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

17 PROVISIONS

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Provision for annual leave entitlements	-	9,080	-	-
	-	9,080	-	-

The movements in the provision were:

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Opening balance	9,080	13,371	-	-
Additional provision in the year	-	16,025	-	-
Utilised during the year	-	(18,905)	-	-
Unused leave paid out on termination of employees	(9,080)	(1,411)	-	-
	-	9,080	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

18 ISSUED CAPITAL AND RESERVES

	CONSOLIDATED 2012 $	*CONSOLIDATED 2011 $*	*PARENT 2012 $*	*PARENT 2011 $*
Ordinary Shares				
Issued and fully paid	31,668,909	31,617,416	31,668,909	31,617,416
Total issued and fully paid	31,668,909	31,617,416	31,668,909	31,617,416

	Shares in Issue (No.)	*$*
Movement in ordinary shares in issue		
At 30 June 2010	370,145,742	30,794,209
Issued on 4 August 2010 for cash	51,246,302	256,232
Issued on 4 August 2010 – share based payment	4,275,555	21,378
Issued on 26 November 2010– share based payment	3,771,110	18,856
Issued on 5 January 2011 for cash	412,679	2,063
Issued on 1 February 2011 for cash	6,000,000	30,000
Issued on 15 March 2011 for cash	4,483,000	22,415
Issued on 14 April 2011 for cash	94,452,784	472,263
At 30 June 2011	534,787,172	31,617,416
Conversion of options on 9 November 2011 for cash	1,000,000	5,000
Share consolidation - 10 to 1	(482,208,455)	-
Issued on 12 December 2011 – share based payment	428,571	2,143
Issued on 12 December 2011 – share based payment	50,000	250
Issued on 31 December 2011 - for cash	5,000,000	25,000
Issued on 1 January 2012 – share based payment	100,000	500
Issued on 24 April 2012 - for cash	2,000,000	10,000
Issued on 24 April 2012 – share based payment	1,720,000	8,600
At 30 June 2012	62,877,288	31,668,909

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

18 ISSUED CAPITAL AND RESERVES (continued)

	CONSOLIDATED 2012 $	*CONSOLIDATED 2011 $*	*PARENT 2012 $*	*PARENT 2011 $*
Share Premium Reserve				
Share Premium Reserve	13,066,294	12,334,669	13,066,294	12,334,669

	Shares in Issue (No.)	*$*
Movement in ordinary shares in issue		
At 1 July 2010	370,145,742	11,861,031
Issued on 4 August 2010 for cash	51,246,302	204,985
Issued on 4 August 2010 – share based payment	4,275,555	21,378
Issued on 26 November 2010– share based payment	3,771,110	11,313
Issued on 5 January 2011 for cash	412,679	4,127
Issued on 1 February 2011 for cash	6,000,000	21,000
Issued on 15 March 2011 for cash	4,483,000	15,691
Issued on 14 April 2011 for cash	94,452,784	472,264
Cost of issues	-	(277,120)
At 30 June 2011	534,787,172	12,334,669
Conversion of options on 9 November 2011 – for cash	1,000,000	3,500
Share consolidation - 10 to 1	(482,208,455)	-
Issued on 12 December 2011 – share based payment	428,571	27,857
Issued on 12 December 2011 – share based payment	50,000	2,750
Issued on 31 December 2011 - for cash	5,000,000	475,000
Issued on 1 January 2012 – share based payment	100,000	6,400
Issued on 24 April 2012 - for cash	2,000,000	190,000
Issued on 24 April 2012 – share based payment	1,720,000	98,040
Cost of issues	-	(71,922)
At 30 June 2012	62,877,288	13,066,294

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

18 ISSUED CAPITAL AND RESERVES (continued)

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Other Reserves				
Option Reserve	571,558	500,407	571,558	500,407

	Unlisted Options on Issue	*$*
Movement in Option Reserve		
At 1 July 2010	6,000,000	199,357
Outstanding listed options at 1 July 2010	113,887,066	-
Granted during the year to 30 June 2011	194,974,641	301,050
Exercise of listed options	(10,483,000)	-
Expired 31 December 2010	(66,607,191)	-
Outstanding listed options at 30 June 2011	237,771,516	500,407
Exercise of listed options	(1,000,000)	-
Option consolidation - 10 to 1	(213,094,364)	-
Granted during the year	2,000,000	71,151
Granted during the year as part of the capital raising	7,000,000	-
Outstanding listed options at 30 June 2012	32,677,152	571,558
Exercisable at year end	32,677,152	

Nature and purpose of reserves

Share premium reserve
The share premium reserve is used to record increments in the value of share issues when the issue price per share is greater than the par value. The par value of shares is $0.005 (2011:$0.005). Costs of the issues are written off against the reserve.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

19 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

Financial Risk Management
Overview

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

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

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

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

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

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

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

Interest rate risk

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

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

Cash and cash equivalents are exposed to foreign currency risk, cash balances earn a floating interest rate.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

19 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis for 2011.

		Profit or loss		Equity	
Consolidated - 30 June 2012	**Carrying Value at year end**	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
	$	$	$	$	$
Cash and cash equivalents	142,427	1,424	(1,424)	1,424	(1,424)
Consolidated - 30 June 2011					
Cash and cash equivalents	590,543	5,905	(5,905)	5,905	(5,905)

		Profit or loss		Equity	
Parent - 30 June 2012	**Carrying Value at year end**	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
	$	$	$	$	$
Cash and cash equivalents	-	-	-	-	-
Parent - 30 June 2011					
Cash and cash equivalents	389	4	(4)	4	(4)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

19 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Credit risk

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

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

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

Exposure to credit risk

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

	Consolidated Carrying amount		Parent Carrying amount	
	2012	2011	2012	2011
	$	$	$	$
Cash and cash equivalents	142,427	590,543	-	389
Trade and other receivables	-	92,775	-	-
	142,427	683,318	-	389

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:	Consolidated Carrying amount		Parent Carrying amount	
	2012	2011	2012	2011
	$	$	$	$
Australia	-	17,729	-	-
Europe	-	11,454	-	-
USA	-	63,592	-	-
	-	92,775	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

19 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Impairment losses

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

	Consolidated		Consolidated	
	Gross 2012	Impairment 2011	Gross 2012	Impairment 2011
	$	$	$	$
Not past due	-	-	-	-
Past due 0-30 days	-	81,321	-	84,009
Past due 31-120 days	-	11,454	-	-
	-	92,775	-	84,009

There were no impairment losses at 30 June 2012 (2011: $Nil).

Liquidity risk

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

The following are the contractual maturities of financial liabilities:

Consolidated - 30 June 2012	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	93,009	93,009	93,009
	93,009	93,009	93,009

Consolidated - 30 June 2011	Carrying amount	Contractual cash flows	6 months or less
	$	$	$
Trade and other payables	218,466	218,466	218,466
	218,466	218,466	218,466

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

19 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Fair Value of Financial Assets and Liabilities

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

Foreign Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), but also the USD, the EUR and the GBP. The currencies in which these transactions primarily are denominated are AUD, USD, GBP.

Exposure to Currency Risk

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

	30 June 2012		30 June 2011		
In AUD	**AUD**	**USD**	**AUD**	**GBP**	**USD**
Cash	1,940	140,487	225,343	389	386,615
Trade Receivables	-	-	92,775	-	-
Trade Payables	93,009	-	(218,466)	-	-
	94,949	140,487	99,652	389	386,615

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

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	**2012**	**2011**	**2012**	**2011**
GBP	0.6513	0.6208	0.6505	0.6614
USD	1.0323	0.9881	1.0159	1.0597

Capital Risk Management

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

20 COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Group as lessee

The Group has entered into an operating lease on office equipment where it is not in the best interest of the Group to purchase these assets.

This lease has an average life of 5 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2012 are as follows:

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Within one year	5,124	21,720	-	-
After one year but not more than five years	8,967	14,091	-	-
	14,091	35,811	-	-

21 RELATED PARTY DISCLOSURE

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

	Country of incorporation	*% Equity interest*		*Investment ($)*	
		2012	*2011*	*2012*	*2011*
Structural Monitoring Systems Ltd	Australia	100	100	-	-
Structural Health Monitoring Ltd	United Kingdom	100	100	-	-
Structural Monitoring Systems Inc	United States	100	100	-	-
				-	-

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

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

This intercompany loan has been reclassified as an investment in the prior year ending 30 June 2011 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cashflows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the loan is likely to be the nature of an investment. The investment has had an impairment charge applied to write the balance down to net asset of the subsidiary.

At reporting date, the Group has cash at bank amounted to $1,787 (2011:$178,972) held in trust by Sonalta Capital, LLC., which Toby Chandler is a director of the company. The balance has unrestricted access by the Group.

22 EVENTS AFTER THE BALANCE SHEET DATE

There are no matters or circumstances that have arisen since 30 June 2012 that have or may significantly affect the operations, results, or state of affairs of the Group in future financial years.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

23 AUDITORS' REMUNERATION

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

	CONSOLIDATED		*PARENT*	
	2012	*2011*	*2012*	*2011*
	$	*$*	*$*	*$*
Amounts received or due and receivable RSM Tenon Audit Limited for:				
• an audit or review of the financial report of the entity and the Group	26,680	21,176	26,680	21,176
Amounts received or due and receivable by RSM Bird Cameron Partners for:				
• an audit or review of the financial report of the principal trading subsidiary	40,000	30,000	-	-
• other services in relation to the entity and any other entity in the consolidated entity – tax compliance	5,250	5,250	5,250	3,000
	71,930	56,426	31,930	24,176

24 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i)Specified directors

Toby Chandler	**Managing Director**
Andrew Chilcott	**Director – appointed on 1 March 2012**
Michael Reinstein	**Director – appointed on 30 November 2011**

(ii)Specified executives

Nil

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

24 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(ii)Remuneration of Specified Directors and Specified Executives

	Primary	Post Employment	Other	Equity	Total
30 June 2012	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Sam Wright*	95,000	7,987	-	21,700	124,687
Toby Chandler	122,043	-	-	48,050	170,093
Andrew Chilcott**	6,818	-	-	9,300	16,118
Richard Evans*	10,833	-	-	7,750	18,583
Michael Reinstein***	-	-	-	9,300	9,300
Total Specified Directors	**234,694**	**7,987**	**-**	**96,100**	**338,781**
Specific Executives					
Total Specified Executives	**-**	**-**	**-**	**-**	**-**
Grand Total	**234,694**	**7,987**	**-**	**96,100**	**338,781**

	Primary	Post Employment	Other	Equity	Total
30 June 2011	*Salary & Fees*	*Superannuation*	*Social Security*	*Shares*	
Specific Directors	*$*	*$*	*$*	*$*	*$*
Sam Wright	69,167	8,475	-	20,000	97,642
Toby Chandler	20,000	-	-	-	20,000
Andrew Caminschi	32,500	2,363	-	-	34,863
Robin Dean	12,500	1,875	-	8,888	23,263
Mark Vellacott	91,667	8,250	-	-	99,917
Richard Evans	19,166	-	-	-	19,166
Malcolm Richmond	6,250	844	-	1,281	8,375
Total Specified Directors	**251,250**	**21,807**	**-**	**30,169**	**303,226**
Specific Executives					
Colin McDonald	45,069	4,056	-	-	49,125
Total Specified Executives	**45,069**	**4,056**	**-**	**-**	**49,125**
Grand Total	**296,319**	**25,863**	**-**	**30,169**	**352,351**

Resigned as director on 1 March 2012.
** Appointed as director on 1 March 2012.
*** Appointed as director on 28 October 2012.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

24 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

None.

(e) Option holdings of specified directors and specified executives

2012	*Balance at beg of period 01-Jul-11*	*Granted as Remuneration*	*Options Exercised*	*Net Change Other*	*Balance at end of period 30-Jun-12*
Specified Directors					
Toby Chandler	-	-	-	-	-
Andrew Chilcott	-	-	-	-	-
Michael Reinstein	-	-	-	-	-
Sam Wright	833,334	-	-	(833,334)	-
Richard Evans	3,703,704	-	-	(3,703,704)	-
	4,537,038	-	-	(4,537,038)	-

2011	*Balance at beg of period 01-Jul-10*	*Granted as Remuneration*	*Options Exercised*	*Net Change Other*	*Balance at end of period 30-Jun-11*
Specified Directors					
Mark Vellacott	5,000,000	-	-	(5,000,000)	-
Sam Wright	-	-	-	833,334	833,334
Richard Evans	-	-	-	3,703,704	3,703,704
	5,000,000	-	-	(462,962)	4,537,038

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Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2012

24 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(f) Shareholdings of Specified Directors and Specified Executives

Shares held in Structural Monitoring Systems Plc

2012	*Balance at beg of period 01-Jul-11*	*Granted as Remuneration*	*Options Exercised*	*Net Change Other*	*Balance at end of period 30-Jun-12*
Specified Directors					
Sam Wright*****	4,000,000	-	-	(4,000,000)	-
Toby Chandler***	21,035,181	1,430,000	-	(18,931,663)	3,533,518
Richard Evans******	3,703,704	-	-	(3,703,704)	-
Andrew Chilcott^	-	150,000	-	-	150,000
Michael Reinstein^^	-	150,000	-	-	150,000
Total	28,738,885	1,730,000	-	(7,703,704)	3,833,518

* Mr Sam Wright resigned on 1 March 2012.
**Mr Richard Evans resigned on 1 March 2012.
*** The net change other for Toby Chandler is to reflect the consolidation of share for 10 to 1.
^ Mr Andrew Chilcott was appointed as director on 1 March 2012 and issued 150,000 shares in lieu of cash for services provided to the entity.
^^ Mr Michael Reinstein was appointed as director on 30 November 2011 and issued 150,000 shares in lieu of cash for services provided to the entity.
Please note that the

2011	*Balance at beg of period 01-Jul-10*	*Granted as Remuneration*	*Options Exercised*	*Net Change Other*	*Balance at end of period 30-Jun-11*
Specified Directors					
Robin Dean	4,807,267	833,334	-	(5,640,601)	-
Mark Vellacott	600,000	-	-	(600,000)	-
Prof Malcolm Richmond	200,000	625,000	-	(825,000)	-
Sam Wright	-	2,500,000	-	1,500,000	4,000,000
Toby Chandler	-	-	-	21,035,181	21,035,181
Richard Evans	-	-	-	3,703,704	3,703,704
Specified Executives					
Colin McDonald	52,000	-	-	(52,000)	-
Total	5,659,267	3,958,334	-	19,121,284	28,738,885

Directors' Declaration

In accordance with a resolution of the directors of Structural Monitoring Systems Plc, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Australian Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

- (ii) complying with International Financial Reporting Standards, Australian Corporations Regulations 2001 and UK Companies Act 2006;

(a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) the audited remuneration disclosures set out in Sections 13 and 14 of the Directors' Report, for the year ended 30 June 2012, comply with section 300A of the Australian Corporations Act 2001.

The Directors have been given the declarations required by section 295A of the Australian Corporations Act 2001.

On behalf of the Board

Toby Chandler
Managing Director
31 August 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

We have audited the financial statements of Structural Monitoring Systems pic for the year ended 30 June 2012 which comprise the group and parent statements of comprehensive income, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of changes in equity, the related notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year end or from time to time during the financial year. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. We have also audited the remuneration report included on pages 9 to 10 of the directors' report for the year ended 30 June 2012.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out of page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. The directors of Structural Monitoring Systems pic are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with International Standards on Auditing (UK and Ireland).

In conducting our audit, we have complied with the independence requirements of the Australian Corporations Act 2001.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non- financial information in the directors' report to identify any material inconsistencies within audited financial statements. If we become aware of any apparent material inconsistencies or misstatements, we consider the implications in our report.

Opinion on financial statements

in our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2012 and of the group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC (continued)

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2(b) to the financial statements concerning the company's and the group's ability to continue as a going concern. The group incurred a net loss of $1,266,990 during the year ended 30 June 2012. These conditions, along with the other matters explained in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's and the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and the group were unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on other matters prescribed by the Australian Corporations Act 2001

In our opinion the remuneration report of Structural Monitoring Systems pic for the year ended 30 June 2012 complies with section 300A of the Corporations Act 2001.

Matters on which we are required to report by exception

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

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

Malcolm Pirouet (Senior statutory auditor)
for and on behalf of RSM Tenon Audit Limited, Statutory auditors

London, UK
31 August 2012

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 July 2012

(a) Distribution of CDI securities

Range of Units Snapshot **Composition : CDI**

Range	Total holders	Units	% of Issued Capital
1 - 1,000	286	166,955	0.27
1,001 - 5,000	302	815,364	1.30
5,001 - 10,000	162	1,294,347	2.06
10,001 - 100,000	313	10,551,954	16.78
100,001 - 9,999,999,999	96	50,048,492	79.60
Rounding			**-0.01**
Total	**1,159**	**62,877,112**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0. 0.0350 per unit	14286	804	2943702

(b) Distribution of options SMNOA

Range of Units Snapshot **Composition : OP2**

Range	Total holders	Units	% of Issued Capital
1 - 1,000	0	0	0.00
1,001 - 5,000	31	155,000	0.73
5,001 - 10,000	1	10,000	0.05
10,001 - 100,000	19	1,016,611	4.79
100,001 - 9,999,999,999	27	20,050,256	94.43
Rounding			**0.00**
Total	**78**	**21,231,867**	**100.00**

Unmarketable Parcels

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

ASX Additional Information (continued)

Distribution of options SMNOB

Range of Units Snapshot

Range	Total holders	Units	% of Issued Capital
1 - 1,000	25	14,536	0.12
1,001 - 5,000	10	130,461	1.13
5,001 - 10,000	2	111,807	0.98
10,001 - 100,000	12	2,359,374	20.61
100,001 - 9,999,999,999	2	8,829,053	77.14
Rounding			**0.00**
Total	**51**	**11,445,231**	**100.00**

Unmarketable Parcels

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

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

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

Rank	Name	Units	% of Units
1.	DRAKE PRIVATE INVESTMENTS LLC	5,000,000	7.95
2.	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	4,799,466	7.63
3.	CITICORP NOMINEES PTY LIMITED	3,833,876	6.10
4.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	3,609,140	5.74
5.	MR ROBERT MICHAEL REVELEY	2,000,000	3.18
6.	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,762,867	2.80
7.	NATIONAL NOMINEES LIMITED	1,695,001	2.70
8.	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	1,350,000	2.15
9.	NUMBER 7 INVESTMENTS PTY LTD	1,111,111	1.77
10.	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	1,012,048	1.61
11.	RICHARD CHARLES EVANS	923,941	1.47
12.	MR STEPHEN FORMAN	900,000	1.43
13.	GEBA PTY LTD <GEBA FAMILY A/C>	898,414	1.43
14.	STRAIGHT LINES CONSULTANCY PTY LTD <STRAIGHT LINES CONSULT A/C>	861,000	1.37
15.	LANDMARK CONSTRUCTION PTY LTD <MEYER SHIRCORE UNIT S/F A/C>	770,000	1.22
16.	MR DAVID MICHAEL BROWN <DB ENTERPRISES MANAGEMENT FUND>	600,000	0.95
17.	CAFMAC PTY LTD <AG & SJ MCHARG PERS S/F A/C>	600,000	0.95
18.	CLATWORTHY NOMINEES LTD	600,000	0.95
19.	UNIVERSAL ACTION PTY LTD	600,000	0.95
20.	RIHOME PTY LTD <THE RIHOME SUPER FUND A/C>	541,326	0.86
Totals: Top 20 holders of CHESS DEPOSITORY INTEREST (TOTAL)		**33,468,190**	**53.23**

Total Remaining Holders Balance	**29,408,922**	**46.77**

ASX Additional Information (continued)

Twenty largest option holders (ASX Code: SMNOA)

The names of the twenty largest holders of quoted options are:

Rank	Name	Units	% of Units
1.	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	4,433,607	20.88
2.	DRAKE PRIVATE INVESTMENTS LLC	3,000,000	14.13
3.	DRAKE PRIVATE INVESTMENTS LLC	2,000,000	9.42
4.	MR ROBERT MICHAEL REVELEY	2,000,000	9.42
5.	GEBA PTY LTD <GEBA FAMILY A/C>	1,204,819	5.67
6.	NUMBER 7 INVESTMENTS PTY LTD	1,111,111	5.23
7.	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	680,000	3.20
8.	MR PETER VASSILEFF <PITCH INVESTMENTS>	610,000	2.87
9.	EXIT OUT PTY LTD <THE DISCRETIONARY A/C>	602,409	2.84
10.	OSTLE INTERNATIONAL PTY LTD	500,000	2.35
11.	BILL BROOKS PTY LTD <BILL BROOKS SUPER FUND A/C>	455,555	2.15
12.	MR VINCENZO BRIZZI + MRS RITA LUCIA BRIZZI <BRIZZI FAMILY S/F A/C>	420,787	1.98
13.	FOLEY PTY LTD <THE GREAT WESTERN A/C>	350,000	1.65
14.	GOFFACAN PTY LTD <KMM FAMILY A/C>	350,000	1.65
15.	RICHARD CHARLES EVANS	277,777	1.31
16.	SILKTREE INVESTMENTS PTY LTD <VASSILEFF SUPERFUND A/C>	250,000	1.18
17.	522 INVESTMENTS PTY LTD	240,963	1.13
18.	MR ANTHONY MASLIN + MS MARITE NORRIS <MASLIN FAMILY A/C>	200,000	0.94
19.	MEGATOP NOMINEES PTY LTD <MORRIS SUPER FUND A/C>	200,000	0.94
20.	RINGSFORD PTY LTD <DG & GL WALKER S/F A/C>	200,000	0.94
Totals: Top 20 holders of LISTED OPTIONS EXPIRE 01/07/13 @ $0.0085		**19,087,028**	**89.90**
Total Remaining Holders Balance		**2,144,839**	**10.10**

ASX Additional Information (continued)

Twenty largest option holders (ASX Code: SMNOB)

The names of the twenty largest holders of quoted options are:

Rank	Name	Units	% of Units
1.	MR BRYANT JAMES MCLARTY	1,900,000	16.60
2.	CITICORP NOMINEES PTY LIMITED	949,446	8.30
3.	MR STEPHEN FORMAN	900,000	7.86
4.	MR ROBERT GREGORY LOOBY	575,122	5.02
5.	MS DIMITRA DAFALIA	500,000	4.37
6.	J P MORGAN NOMINEES AUSTRALIA	440,716	3.85
7.	MR GRANTLEY MARK FRASER	417,333	3.65
8.	NATIONAL NOMINEES LIMITED	412,500	3.60
9.	CAFMAC PTY LTD	400,000	3.49
10.	UNIVERSAL ACTION PTY LTD	400,000	3.49
11.	ABN AMRO CLEARING SYDNEY	303,334	2.65
12.	NAVIGATOR AUSTRALIA LTD	253,012	2.47
13.	GREAT DAY HOLDINGS PTY LTD	240,000	2.28
14.	AZALEA FAMILY HOLDINGS PTY LTD	233,333	2.12
15.	MR VINCENZO BRIZZI &	215,666	2.12
16.	OSTLE INTERNATIONAL PTY LTD	200,000	1.59
17.	WINTERSET INVESTMENTS PTY LTD	149,800	1.24
18.	MRS HAYLEY JANE DUNIKOWSKI	129,333	1.15
19.	MR ALAN RAYMOND REED &	108,533	1.07
20.	MS SUZANNE MCMEEKIN	100,925	1.06
Totals: Top 20 holders of LISTED OPTIONS EXPIRE 31/03/13 @ $0.0085		**8,829,053**	**77.14**
Total Remaining Holders Balance		**2,616,178**	**22.86**

ASX Additional Information (continued)

(d) Voting rights

All ordinary shares have attached a voting right of one vote per fully paid ordinary share. The same voting rights will be attached to ordinary shares that issue when options are exercised.

CORPORATE GOVERNANCE STATEMENT

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

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

Recommendation	ASX P&R (1)	If not, why not (2)
Recommendation 1.1 Functions of the Board and Management	×	
Recommendation 1.2 Evaluation of Senior Executives	×	
Recommendation 1.3 Reporting on Principle 1	×	
Recommendation 2.1 Independent Directors	×	
Recommendation 2.2 Independent Chairman	×	
Recommendation 2.3 Role of the Chairman and CEO	×	
Recommendation 2.4 Establishment of Nomination Committee	×	
Recommendation 2.5 Evaluation of Board	×	
Recommendation 2.6 Reporting on Principle 2	×	
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	×	
Recommendation 3.2 Company Security Trading Policy	×	
Recommendation 3.3 Reporting on Principle 3	×	
Recommendation 4.1 Establishment of Audit Committee	×	
Recommendation 4.2 Structure of Audit Committee	×	
Recommendation 4.3 Audit Committee Charter	×	
Recommendation 4.4 Reporting on Principle 4	×	
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	×	
Recommendation 5.2 Reporting on Principle 5	×	
Recommendation 6.1 Communications Strategy	×	
Recommendation 6.2 Reporting on Principle 6	×	
Recommendation 7.1 Policies on Risk Oversight and Management	×	
Recommendation 7.2 Implementation of Risk Management and Internal Control Systems	×	
Recommendation 7.3 Attestations by CEO and CFO		
Recommendation 7.4 Reporting on Principle 7		
Recommendation 8.1 Establishment of Remuneration Committee	×	
Recommendation 8.2 Executive and Non-Executive Director Remuneration	×	
Recommendation 8.3 Reporting on Principle 8	×	

(1) Indicates where the Company has followed the Principles and Recommendations

(2) Indicates where the Company has provided "if not, why not" disclosure.

CORPORATE GOVERNANCE STATEMENT (continued)

NOMINATION MATTERS

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

Name:
Sam Wright (Chair)
Richard Evans

There were no meetings of the nomination committee.

AUDIT MATTERS

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

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

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

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

REMUNERATION MATTERS

Remuneration Policy

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

Remuneration Committee Function

Name	No of meetings attended
Sam Wright (Chair)	nil
Richard Evans	nil

OTHER

Skills, Experience, Expertise and term of office of each Director

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

Assurances to the Board

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

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

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

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

Identification of Independent Directors and the Company's Materiality Thresholds

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

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

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

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

Statement concerning availability of Independent Professional Advice

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

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

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

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

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