

Structural Monitoring Systems Plc

Company number 4834265



Annual Report 2020



Corporate Directory

Board of Directors

Will Rouse
Executive Chairman

R. Michael Reveley
Executive Director

Terry Walsh
Non Executive Director

Stephen Forman
Non Executive Director

Officers

Toby Chandler
Chief Executive Officer

Sam Wright
Company Secretary

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Stock Exchange Listing

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

Structural Monitoring Systems Plc Website

www.smsystems.com.au

Structural Monitoring Systems Plc

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Auditors

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United Kingdom

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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).

Review of operations

Structural Monitoring Systems Plc (“SMS”, the “Group” or the “Company”), due to the outstanding performance of its Canadian-based wholly-owned subsidiary Anodyne Electronics Manufacturing Corp (“AEM”), logged another very solid year, recording total sales for the 2020 financial year of \$19.095m, an increase of 17% over the prior year.

Cash generation through the year was very strong with a total year-end Group cash balance of \$2.065 million, net of borrowings (2019: \$1.562 million).

For the first time since the acquisition of AEM in December 2017, the Group achieved a positive cashflow from operating activities for the year, a remarkable achievement in such a short time. As a result, the Group has been able to expand AEM operations and meet corporate overheads without resorting to equity markets.

The improvement in operating cashflows is due, in part, to the introduction of IFRS 16 *Leases*. From 1 July 2019 principal lease payments made during the year amounting to \$0.414m (2019: \$0.367m profit and loss expense) are not included in cashflows from operating activities. Principal lease payments are now included in cashflows from financing activities.

The Group is adequately funded to continue its current operations during these uncertain times and will continue to demonstrate appropriate financial restraint. The Company’s Board and CEO have carefully reviewed the Group’s cashflow outlook, in light of the timeframe remaining to the CVM™ commercialisation, and with due regard to the constantly evolving COVID-19 situation. Commencing in the September 2019 quarter and throughout the remainder of the year, as a matter of prudence, all SMS Board and Executive/senior staff moved to an equity-only compensation structure. These will remain in place until at least December 2020, to ensure that the cash burn at the corporate level is limited to essential outgoings only (i.e. regulatory related expenses, ASX and audit fees, patent maintenance, and so forth). With the assumption that there will be only limited disruption to AEM’s ongoing business operations, the Group will continue to self-fund all core operational activities. The group has not received any government financial assistance related to COVID-19.

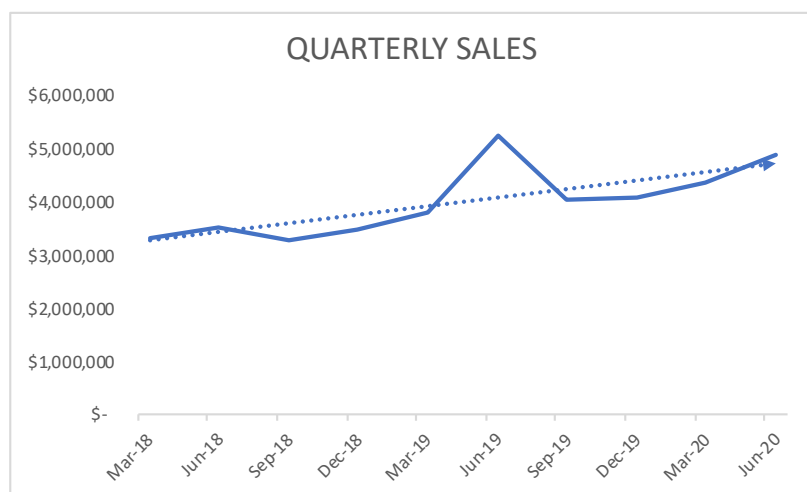
During the year SMS appointed Stephen Forman as a non-executive director. Mr Forman brings significant experience and expertise in capital markets to the Group and will be responsible for investor relations. A group financial controller has also been added to the senior management team during the year.



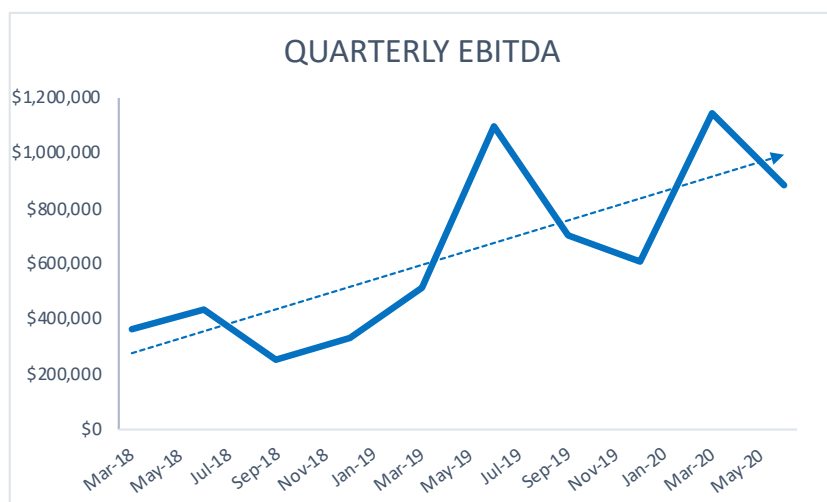
**Anodyne Electronics
Manufacturing Corporation**

Anodyne Electronics Manufacturing Corporation (“AEM”)

As can be seen below the combined dedicated efforts of AEM staff and SMS Board and management has significantly increased revenues, profitability and shareholder value in the two and a half years since acquisition through product development, improved margins and business development.



AEM Sales by quarter since December 2017 denominated in Canadian dollars.



AEM EBITDA by Quarter since December 2017 denominated in Canadian dollars.

Details of AEM EBITDA can be found under Avionics/audio in note 3 Segment information.

Following the onset of the COVID-19 global pandemic, AEM was classified an “essential business” for the purpose of continuing to support critical infrastructure in the aerospace industry. AEM management responded prudently by moving to a split shift system, observed social distancing and even transitioned platform capacity to produce important PPE to help supply critical shortages of face-shields for Canadian healthcare workers, hospitals and first responders. Importantly, with these actions, AEM was able to maintain near-peak capacity production and continues to do so today.

Looking forward, AEM will continue to focus on the development of new-generation product solutions, primarily focused on the global rotorcraft markets. R&D spend (currently circa-10% of sales) will thus rise to circa-13% of sales over the upcoming financial year, as AEM continues to add to its pipeline of new products under development targeting several of the largest global aerospace OEMs. The SMS Board and executive management continue to be optimistic in regard to the significant growth opportunities these new product solutions will provide, particularly given the scale of the addressable markets for these products globally. Directors and Management are constantly monitoring the COVID-19 situation and are not in a position at this stage to provide firm forecasts on the effects it may have on operations for FY2021. Current visibility and realised activity levels, however, indicate that at this stage, in a similar vein to what transpired through H1-2020, that core operations will be only minimally impacted, if at all, by ongoing developments related to COVID-19. The SMS Board and management will continue to monitor the evolving global situation closely and regularly.

Comparative Vacuum Monitoring (CVM™) Commercialisation Update and Outlook

2ku Wi-Fi Program Specifics:

The Federal Aviation Administration (“FAA”) has now provided Delta Engineering (“DE”) with their Stage III response to the issue paper, which sets the requirements for the final testing required for approval of the Supplemental Type Certificate (“STC”). DE and Sandia National Laboratories (“Sandia”) are reviewing the response from the FAA and do not see any major hurdles at this time. The FAA is currently reviewing the Test Plan to ensure it satisfies the IP. Assuming no changes or amendments to the FAA Stage III IP response are sought, and the FAA provides an approved Test Plan as expected shortly, SMS, DE and Sandia will begin the testing of CVM™ sensors in October.

Concurrently, the required pre-validation CVM™ installation on a Delta Air Lines (“Delta”) aircraft has been discussed in detail (a requirement for STC approval), and the necessary production of CVM™ installation kits have been completed and are ready to ship. SMS and Delta are working to determine an aircraft for the installation, and a final decision for the selected aircraft is expected in the near term.

All necessary work requirements to date have proceeded as planned along the STC approval path for the 2ku Wi-Fi system. Reiterating - the programme is on-schedule, and is currently well into Stage III, and Stage IV in parallel, while a good amount of the Stage IV effort has already been submitted to the FAA.

Despite the present and ongoing challenges of an unprecedented global operating environment presented by COVID-19 which has impacted travel, supply chain and factory layout, SMS and the Company's key strategic counterparties remain well on-track to deliver a highly significant commercial milestone within the time parameters that have been previously communicated, pending a reasonable (and expected) response time from the FAA. Your Company remains committed to delivering a full STC-approval in Q4-2020 following which the emphasis will move to taking the technology to market in 2021.

Financial review and key financial performance indicators and milestone assessment

At 30 June 2020, the Group had \$2.065m cash at bank, net of borrowings (2019: \$1.562m).

In this second full year of operations since the acquisition of AEM was completed in December 2017, the Group recorded a loss for the financial year of \$2.549m (2019: \$4.027m). The decrease in loss was largely due to an increase in gross profit of \$2.510m for the year. The Group also recorded revenue during the year of \$19.095m (2019: \$16.380m), an increase of 17% year on year. Key expenses during the year were consumables and raw materials used of \$10.204m (2019: \$9.999m), employee costs of \$5.277m (2019: \$4.058m) and share based payments of \$1.952m (2019: \$2.031m). The increase in consumables and raw materials has been driven by increased demand for AEM products. As a result of the adoption of IFRS 16 Leases lease payments of \$0.414m (2019: \$0.367m) are no longer classed as operating cash outflows improving EBITDA and operating cashflows as a result. Financial performance has improved as a result of increasing sales and production of products utilising AEM IP with increased profit margins.

The Group EBITDA* for the financial year was (\$0.991m) (2019: (\$2.827m)). Normalised EBITDA for AEM (excluding SMS operations) for the year ended 30 June 2020 was \$4.178m (2019: \$2.364m). Refer over page for explanation of how EBITDA is calculated.

Financial review and key financial performance indicators and milestone assessment (continued)

Loss per share for the financial year was 2.19 cents per share (2019: Loss per share 3.51 cents).

At the reporting date the Group had net assets of \$13.401m (2019: \$12.378m). The Group had trade receivables of \$2.991m, inventory of \$7.122m and intangible assets of \$3.201m, including goodwill of \$1.444m. At 30 June the Group had trade and other payables of \$1.504m (2019: \$2.583m).

The key movements during the year were an increase in inventory of \$0.962m to meet increased demand, together with a decrease in trade receivables of \$0.343m, an increase in cash of \$0.254m and a decrease in trade and other payables of \$1,079m as well as a reduction in borrowings of \$0.249m as the Group built on strong sales, improved cashflow and the finalisation of an outstanding legal claim during the year. Tax payable at year end increased by \$0.410m to \$0.640m as a result of increased profits recorded by AEM for the year.

The only movements in equity during the year were due to Directors and senior management electing to receive compensation in the form of Performance Rights (PRs) for the year in order to preserve cash, other contractual share-based compensation and subscriptions to CDIs made by staff through the Company's Employee Incentive Plan.

*EBITDA, which is inclusive of FX gains/losses, is calculated by adding back interest costs, income tax, depreciation and amortisation expenses and deducting interest revenue from loss after tax for the year of \$2.549m (2019: \$4.027m). Refer to note 3: *Segment information* in the notes to the financial statements.

Principal Risks and Uncertainties

The principal risks and how they are managed are set out on page 15 of the Directors' Report.

s172 Statement

The Board has a duty under s172 of the Companies Act 2006 to promote the success of the Company of the benefit of its members as a whole. All decisions are made with this objective and the Board considers the long-term implications of its actions.

The Group has a continuous stakeholder engagement programme in which both Executive and Non-Executive Directors participate to ensure the Board is aware of stakeholder interests.

The Group believes its employees are its greatest asset and it seeks to establish policies that provide a working environment that is safe, enjoyable and rewarding.

Critical to the success of the Group is its long-term relationship with our suppliers and customers, as well as our shareholders. The Board believes the decisions it has made have been appropriated both to support these stakeholders and to foster stronger, long-term relationships with them.

The Group is mindful of its role within its local communities and seeks to minimise the impact of its operations on the environment and to be a good neighbour.

The reputation of the Group and its brand image are considered by the Board to be critical to its success. As such the Board to be critical and workplace that demonstrate integrity and where all employees are encouraged to perform in line with best business practices.

Overall, in considering and taking decisions the Board seeks to act in the best interests of the business and all its stakeholders, treating all members fairly.

The Strategic Report was signed on behalf of the Board.



Will Rouse
Executive Chairman
30th September 2020

Your directors submit their report for the year ended 30 June 2020.

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

Directors and Officers

Will Rouse (Executive Chairman)

Mr Rouse is an experienced businessman and finance executive focused on the acquisition and optimised growth of specialised manufacturing-related businesses. In his last role, Will acquired Simcro Ltd ("Simcro") in 2007, a New Zealand-based export-manufacturer. Will sold his majority stake in Simcro in 2013 to The Riverside Company, a New York private equity group, retaining a 20% shareholding. Simcro then acquired two further operating businesses in NZ and Australia in 2015, with Will leading these acquisitions. Simcro was sold in 2018 to a global multinational. Mr Rouse is a Chartered Accountant. He joined the Board of SMS primarily to oversee the acquisition and management of AEM. His role expanded in 2019 to include chairing the Board and overseeing finance and audit.

R. Michael Reveley (Executive Director)

Mr Reveley served as a managing partner, chief executive and co-CIO of SEAL Capital Ltd, a Los Angeles-based hedge fund specialising in global macro strategies designed to provide risk-adjusted absolute returns investing in an array of global markets, under all market conditions. Before forming SEAL Capital, he was a founding partner and deputy CIO at Seagate Global Advisors in Los Angeles, having earlier been director of the syndicate and derivatives group at SBC Warburg in London and New York, vice-president of global derivatives for Swiss Bank Corporation and vice-president of the global derivatives group at First Interstate Bank, where he co-managed a US\$20bn derivatives portfolio.

Terry Walsh (Non-Executive Director)

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

Admission: Supreme Court of Western Australia in February 1995.

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

Stephen Forman (Non-Executive Director, appointed 1 November 2019)

Mr Forman has over 25 years of demonstrated high-level equity capital markets experience in Australia and North America, through roles in institutional equity sales and trading, investor relations and corporate advisory with major top-tier global investment groups, including UBS and JP Morgan, the latter where Mr Forman worked for 15 years in various senior positions.

Mr Forman's current role as Managing Director with New York-based investment advisory and consulting firm, Union Square Capital Advisors saw him successfully utilise his global network to assist companies with business development and corporate communication strategies, and to diversify their share register with Australian and North American investors. Mr Forman holds a B.Comm – Hons (Accounting & Finance) from UWA and is a CFA Charterholder.

Toby Chandler (Chief Executive Officer)

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

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

Sam Wright (Company Secretary)

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

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

Mr Wright is the Managing Director of Perth-based corporate advisory firm, Straight Lines Consultancy, specialising in the provision of corporate services to public companies. He has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, and shareholder relations with both retail and institutional investors.

Principal Activities

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

Shareholder Meetings

Structural Monitoring Systems Plc held its Annual General Meeting of Shareholders at Level 4, 168 St George's Terrace, Perth, Western Australia on 12th December 2019 at 12.00pm ADST.

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

Statement of Directors' Responsibilities

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

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

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

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

In preparing the Group and Company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the www.smsystems.com.au website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Indemnity and Insurance of Officers

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

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Events Subsequent to the Balance Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and whilst it has had no major impact for the Group to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian and Canadian governments and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

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

Results and Dividend

The operating loss, after income tax, for the year was \$2.549m (2019: \$4.027m). No dividends were proposed or paid during the financial year.

Share Capital

The impact on share capital and share premium account of the share issues during the year, is disclosed in note 24 in the notes to the financial statements.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM and the realisation of assets and discharge of liabilities in the normal course of business, as well as the availability of an established operating loan facility of up to CAD\$3 million. The facility, which is provided by AEM's bankers, is long standing and is secured on receivables and inventory and is subject to loan covenants. The Directors expect compliance with the covenants to continue to be met.

The directors have prepared forecasts in respect of future trading. Achievement of such forecasts would allow the entity to manage well within its current funding facilities for the foreseeable future. In developing these forecasts, the Directors have made assumptions and performed sensitivity analysis on variables such as revenues and employee costs based upon their view of the current and future economic conditions that will prevail over the forecast period of 12 months from the date of signing these financial statements. Directors have not made any assumptions regarding generation of new revenue streams in the year ahead.

The Directors therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors Meetings

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

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

A – Number of meetings attended

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

In addition to formal directors' meetings held during the year regular executive meetings were held on a monthly basis throughout the year.

Research and Development

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

Remuneration Report

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of Structural Monitoring Systems Plc for the financial year ended 30 June 2020. The remuneration report details the remuneration arrangements for key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Remuneration Policy

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

Remuneration Policy (continued)

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

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

Remuneration of Directors and Executives

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:

	Salary & Fees		Post Employment	Share-based payments*		Total
30 June 2020	Cash	Performance rights in lieu of fees	Superannuation	Gain on conversion of performance rights	Shares	
	\$	\$	\$	\$	\$	\$
Directors						
Will Rouse	-	142,588	-	22,250	-	164,838
R Michael Reveley	-	217,053	-	-	-	217,053
Terry Walsh ⁽¹⁾	26,256	102,486	2,494	-	-	131,236
Stephen Forman	20,369	57,823	-	-	-	78,192
Executives						
Toby Chandler	-	218,662	-	33,375	-	252,037
Total	46,625	738,612	2,494	55,625	-	843,356

	Salary & Fees		Post Employment	Share-based payments*		Total
30 June 2019	Cash	Performance rights in lieu of fees	Superannuation	Gain on conversion of performance rights	Shares	
	\$	\$	\$	\$	\$	\$
Directors						
R. Michael Reveley	175,081	-	-	-	-	175,081
Will Rouse	120,000	-	-	-	-	120,000
Terry Walsh ⁽¹⁾	105,023	-	9,977	-	57,000	172,000
Executives						
Toby Chandler	225,000	-	-	-	-	225,000
Total	625,104	-	9,997	-	57,000	692,081

(1) Appointed 4 April 2018, includes \$70,000 per annum including superannuation as legal counsel

Share-based payments relate to the gain of the directors/executive on the conversion of Performance Rights into shares. See note 23 for details of the share-based payment charge for the year ended 30 June 2020 in respect of Performance Rights.

Share transactions with Directors and executives

514,859 Performance Rights were issued to directors in lieu of fees for the year to 30 June 2020. The table on page 14 shows the issue of 874,859 performance rights issued in the year, this includes 150,000 performance rights to Will Rouse and 210,000 to Stephen Forman. The share price at the date of grant of the performance rights granted in lieu of fees was \$1.01.

At the 2019 AGM, 91% of the votes received supported the issued of the performance rights. The Company did not receive any feedback at the AGM regarding its remuneration practices.

Service Agreements

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

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

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

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

Name:	Stephen Forman
Title:	Non-Executive Director
Agreement commenced:	31 October 2019
Term of agreement:	no fixed term
Details:	Base salary US\$50,000 to be reviewed annually by the Remuneration Committee. 60,000 \$0.001 Performance Rights per annum, subject to shareholder approval, and allotted after each AGM, once the requisite approval has been confirmed. The Rights will have a 3 month vesting period once paid, and then will be free to be converted into ordinary shares at any time. Subject to termination notice of 1 month notice by the director and 2 months notice by the company.

Service agreements (continued)

Name: Toby Chandler
 Title: Chief Executive Officer
 Agreement commenced: 12 December 2015
 Term of agreement: no fixed term
 Details: Base salary of AU\$275,000 (increased from \$225,000 on 1 October 2019) to be reviewed annually by the Remuneration Committee.

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

Shareholdings of Directors

Shares held in Structural Monitoring Systems Plc:

	Balance at beg of year	Shares held on appointment/ resignation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of year
30 June 2020	No.	No.	No.	No.	No.	No.
Directors						
Will Rouse	150,000	-	-	120,588	-	270,588
R. Michael Reveley	2,964,352	-	-	-	(310,001)	2,654,351
Terry Walsh	64,500	-	-	-	-	64,500
Stephen Forman ⁽¹⁾		1,900,000	-	-	-	1,900,000
Total	3,178,852	1,900,000	-	120,588	(310,001)	4,889,439

	Balance at beg of year	Shares held on appointment/ resignation date	Granted as Remuneration	Exercise of PRs	Net Change Other	Balance at end of year
30 June 2019	No.	No.	No.	No.	No.	No.
Directors						
Will Rouse	100,000	-	-	-	50,000	150,000
R. Michael Reveley	2,944,352	-	-	-	20,000	2,964,352
Terry Walsh ⁽²⁾	-	-	50,000	-	14,500	64,500
Total	3,044,352	-	50,000	-	84,500	3,178,852

(1) Appointed 1 November 2019

(2) Appointed 4 April 2018

Performance Rights Holdings of Directors

Performance rights held over shares in Structural Monitoring Systems Plc:

	Balance at beg of year	Granted during the year	Exercised during the year	Forefeited during the year	Balance at end of the year
30 June 2020	No.	No.	No.	No.	No.
Directors					
Will Rouse	625,000	291,176	(120,588)	-	795,588
R. Michael Reveley	600,000	214,904	-	-	814,904
Terry Walsh	150,000	101,471	-	-	251,471
Stephen Forman ⁽¹⁾	-	267,308	-	-	267,308
	1,375,000	874,859	(120,588)	-	2,129,271

Performance Rights Holdings of Directors (continued)

	Balance at beg of year	Granted during the year	Exercised during the year	Forefeited during the year	Balance at end of the year
30 June 2019	No.	No.	No.	No.	No.
Directors					
Will Rouse	625,000	-	-	-	625,000
R. Michael Reveley	600,000	-	-	-	600,000
Terry Walsh	-	150,000	-	-	150,000
	1,225,00	150,000	-	-	1,375,000

(1) Appointed 1 November 2019

Additional information

The earnings of the Group for the 5 years to 30 June 2020 are summarised below:

	2020	2019	2018	2017	2016
	\$000'	\$000'	\$000'	\$000'	\$000'
Sales revenue	19,095	16,380	7,437	309	121
EBITDA	(991)	(2,827)	(3,651)	(1,380)	(2,665)
EBIT	(2,043)	(3,488)	(3,966)	(1,444)	(2,665)
Loss after income tax	(2,072)	(3,626)	(3,895)	(1,380)	(2,643)

The factors that are considered to affect total shareholders return ("TSR") are summarised below:

	2020	2019	2018	2017	2016
	\$000'	\$000'	\$000'	\$000'	\$000'
Share price at financial year end \$	0.43	0.65	0.88	1.45	1.87
Total dividends declared	-	-	-	-	-
Basic earnings per share	(2.19)	(3.51)	(3.55)	(1.35)	(2.66)

This concludes the Remuneration Report

Information Given to Auditors

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

Creditor Payment Policy

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2021. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2020, the Group's trade creditors represented 42 days' purchases (2019: 74 days).

Financial instruments and risks

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the CEO. The Board receives monthly reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

The Group is exposed through its operations to the following financial risks:

- credit risk;
- liquidity risk;
- foreign exchange risk

The Group is exposed to the usual credit risk associated with selling on credit and manages this through credit control procedures. AEM receivables are reviewed each month as part of the routine monthly operating review conducted by the Board. Further information is provided in note 25 in the notes to the financial statements.

As a result of operations in Canada, USA, Australia and United Kingdom the Group's assets and liabilities can be affected by movements in the CAD\$/A\$, USD\$/A\$ and 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 Group is exposed to foreign currency risk following the acquisition of a Canadian-based subsidiary and the risk could increase in the future as international commercialisation of the Group's technologies increase. There is currently no form of currency hedging or risk strategy in place, but this policy will be reviewed and strategies implemented once the review is complete.

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group monitors forecast cash inflows and outflows on a monthly basis. The Group has an established operating loan facility for up to CAD\$3 million to assist with day to day operating requirements.

Business risks and uncertainties

The Group has a reliance on one customer at the present time. The customer accounts for \$9.389 million of revenues totalling \$19.095 million. The relationship with the customer is secured by a licence agreement and the Group is diversifying its customer base.

The ongoing impact of the Coronavirus (COVID-19) pandemic is uncertain and, other than the cost of implementing social distancing measures and moving to a spilt shift system, there was no other financial impact for the Group during the year ended 30 June 2020. It is not practicable to estimate the potential impact, positive or negative, after the reporting date. The pandemic may affect future travel, movement of labour and enforce supply chain constraints.

The Company continues to make progress towards the commercialisation of its comparative vacuum monitoring technology (CVM™). Further details can be found in the Strategic Report.

Future developments

The Directors have discussed the future developments for the AEM business and CVM™ technology within the Strategic Report on pages 4/5, in accordance with Section 414C of the Companies Act 2016.

By order of the Board



Will Rouse
Executive Chairman
30th September 2020

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

		Consolidated		Parent	
		2020	2019	2020	2019
	Note	\$000'	\$000'	\$000'	\$000'
Continuing operations					
Revenue					
Sales		19,095	16,380	12	95
Cost of sales		(10,204)	(9,999)	-	(91)
Gross profit		8,891	6,381	12	4
Other income	4	73	32	73	-
Loss on debt for equity swap	4	(127)	-	(127)	-
Depreciation and amortisation	4	(1,052)	(662)	(39)	-
Employee expenses	5	(5,277)	(4,058)	(1,075)	(900)
Impairment charges		-	-	(446)	(125)
Occupancy expenses		(62)	(83)	(62)	(83)
Research and development expenses		(345)	(417)	-	(156)
Sales and marketing		(738)	(693)	(585)	(691)
Share-based payment expense	23	(1,952)	(2,031)	(1,952)	(2,031)
Administrative expenses		(1,604)	(1,940)	(472)	(479)
Operating loss before finance costs and tax		(2,193)	(3,471)	(4,673)	(4,461)
Finance income		3	10	-	-
Finance costs		(32)	(148)	(9)	-
Foreign exchange (losses)/gains		150	(17)	(1)	-
Income tax expense	6	(477)	(401)	-	-
Loss after finance costs and tax from continuing operations		(2,549)	(4,027)	(4,683)	(4,461)
Loss attributable to members of the parent		(2,549)	(4,027)	(4,683)	(4,461)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation		(273)	704	-	-
Total comprehensive income/(loss) for the year		(273)	704	-	-
Loss for the year attributable to owners of Structural Monitoring Systems Plc		(2,822)	(3,323)	(4,683)	(4,461)
Earnings per share (cents per share)					
Basic for loss from continuing operations	7	(2.19)	(3.51)		
Diluted for loss from continuing operations	7	(2.19)	(3.51)		

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

Statement of Financial Position

As at 30 June 2020

Structural Monitoring Systems Plc
Company number: 4834265

	Note	Consolidated		Parent	
		2020 \$000'	2019 \$000'	2020 \$000'	2019 \$000'
Assets					
Non-current assets					
Loans to subsidiaries	14	-	-	11,397	11,819
Plant and equipment	11	342	540	5	-
Right-of-use assets	12	163	-	-	-
Intangible assets and goodwill	13	3,201	3,684	-	-
Total non-current assets		3,706	4,224	11,402	11,819
Current assets					
Trade receivables	8	2,991	3,334	3	-
Other receivables	9	363	361	116	17
Inventory	10	7,122	6,160	184	-
Cash and cash equivalents		2,545	2,291	-	-
Total current assets		13,021	12,146	303	17
Total assets		16,727	16,370	11,705	11,836
Liabilities					
Current liabilities					
Trade and other payables	15	1,504	2,583	245	291
Borrowings	16	480	729	-	-
Deposits	17	43	-	43	-
Lease liabilities	18	208	-	75	-
Tax payable	19	640	230	-	-
Total current liabilities		2,875	3,542	363	291
Non-current liabilities					
Loans from subsidiaries	14	-	-	921	305
Lease liabilities	19	54	-	19	-
Deferred tax	6	397	450	-	-
Total non-current liabilities		451	450	940	305
Total liabilities		3,326	3,992	1,303	596
Net assets		13,401	12,378	10,402	11,240
Equity attributable to equity holders of the parent					
Issued capital	24	31,946	31,932	31,946	31,932
Share premium reserve	24	35,967	35,106	35,967	35,106
Accumulated losses		(56,028)	(54,543)	(58,732)	(55,113)
Other reserves	24	1,516	(117)	1,221	(685)
Total equity		13,401	12,378	10,402	11,240

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

Approved by the Board and authorised for issue on 30th September 2020



W. Rouse, Executive Director

Statement of Cash Flows

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

	Note	Consolidated		Parent	
		2020 \$000'	2019 \$000'	2020 \$000'	2019 \$000'
Cashflows from operating activities					
Receipts from customers		19,499	15,913	82	95
Payments to suppliers and employees		(19,041)	(17,580)	(1,507)	(2,173)
Interest received		3	10	-	-
Interest paid		(119)	(148)	(10)	-
Net cash provided by/(used in) operating activities before tax paid	20(a)	342	(1,805)	(1,435)	(2,078)
Income tax paid		(119)	(151)	-	-
Net cash provided by/(used in) operating activities		223	(1,956)	(1,435)	(2,078)
Cashflows from investing activities					
Payments for plant and equipment		(78)	(230)	-	-
Net cash provided by/(used in) investing activities		(78)	(230)	-	-
Cashflows from financing activities					
Loan from subsidiaries		-	-	592	1,885
Proceeds from issue of shares		887	209	887	209
Proceeds pending issue of shares		43	-	43	-
Issue costs		(12)	(16)	(12)	(16)
Repayment of lease liabilities		(386)	-	(75)	-
Net cash provided by financing activities		532	192	1,510	2,078
Net increase/(decrease) in cash held		668	(1,994)	-	-
Cash and cash equivalents at beginning of year		1,562	3,251	-	-
Effect of foreign exchange on balances		(165)	305	-	-
Net cash and cash equivalents at end of year	20(b)	2,065	1,562	-	-
Cash and cash equivalents		2,545	2,291	-	-
Borrowings		(480)	(729)	-	-
Net cash and cash equivalents at end of year		2,065	1,562	-	-

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

Statement of Changes in Equity

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

	Issued capital	Accumulated losses	Share premium reserve	Share-based payments reserve	Foreign currency translation reserve	Total
Consolidated	\$000'	\$000'	\$000'	\$000'	\$000'	\$000'
At 1 July 2018	31,926	(51,474)	34,919	513	(2,407)	13,477
Loss for the year	-	(4,027)	-	-	-	(4,027)
Foreign currency translation	-	-	-	-	704	704
Total comprehensive loss for the year	-	(4,027)	-	-	704	(3,323)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	1,073	-	1,073
Issue of shares to directors and staff/consultants	6	958	203	-	-	1,167
Share issue costs	-	-	(16)	-	-	(16)
Total transactions with owners	6	958	187	1,073	-	2,224
At 30 June 2019	31,932	(54,543)	35,106	1,586	(1,703)	12,378
At 1 July 2019	31,932	(54,543)	35,106	1,586	(1,703)	12,378
Loss for the year	-	(2,549)	-	-	-	(2,549)
Foreign currency translation	-	-	-	-	(273)	(273)
Total comprehensive loss for the year	-	(2,549)	-	-	(273)	(2,822)
Transactions with owners:						
Issue of performance rights to directors and staff/consultants	-	-	-	2,459	-	2,459
Issue of shares to directors and staff/consultants	10	515	873	-	-	1,398
Conversion of performance rights to shares	4	549	-	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	1,064	861	1,906	-	3,845
At 30 June 2020	31,946	(56,028)	35,967	3,492	(1,976)	13,401

Statement of Changes in Equity

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

	Issued capital	Accumulated losses	Share premium reserve	Share-based payments reserve	Foreign currency translation reserve	Total
Parent	\$	\$	\$	\$	\$	\$
At 1 July 2018	31,926	(51,610)	34,919	513	(2,271)	13,477
Loss for the year	-	(4,461)	-	-	-	(4,461)
Total comprehensive loss for the year	-	(4,461)	-	-	-	(4,461)
Transactions with owners:						
Issue of performance rights to directors and staff	-	-	-	1,073	-	1,073
Issue of shares to directors and staff	6	958	203	-	-	1,167
Share issue costs	-	-	(16)	-	-	(16)
Total transactions with owners	6	958	187	1,073	-	2,224
At 30 June 2019	31,932	(55,113)	35,106	1,586	(2,271)	11,240
At 1 July 2019	31,932	(55,113)	35,106	1,586	(2,271)	11,240
Loss for the year	-	(4,683)	-	-	-	(4,683)
Total comprehensive loss for the year	-	(4,683)	-	-	-	(4,683)
Transactions with owners:						
Issue of performance rights to directors and staff	-	-	-	2,459	-	2,459
Issue of shares to directors and staff	10	515	873	-	-	1,398
Conversion of performance rights to shares	4	549	-	(553)	-	-
Share issue costs	-	-	(12)	-	-	(12)
Total transactions with owners	14	1,064	861	1,906	-	3,845
At 30 June 2020	31,946	(58,732)	35,967	3,492	(2,271)	10,402

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

1. Corporate information and authorisation of financial statements

The financial statements of Structural Monitoring Systems Plc for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 30 September 2020 and the statements of financial position were signed on the Board's behalf by Will Rouse.

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

2. Summary of significant accounting policies

(a) Basis of preparation

The consolidated financial statements and those of the parent entity are presented in Australian dollars which is the Company's functional currency and are rounded to the nearest Australian dollar. The average AUD:GBP rate for the year was 0.5328 (2019: 0.5527) and the reporting date AUD:GBP spot rate was 0.5586 (2019: 0.5535). The average AUD:CAD rate for the year was 0.9003 (2019: 0.9469) and the reporting date AUD:CAD spot rate was 0.9387 (2019: 0.9187). CAD is the presentational currency of Anodyne Electronics Manufacturing Corp (AEM), a wholly-owned subsidiary of the Company.

(b) Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities, the continued financial performance of AEM and the realisation of assets and discharge of liabilities in the normal course of business as well as the availability of an established operating loan facility of up to CAD\$3 million. The facility, which is provided by AEM's bankers, is long standing and is secured on receivables and inventory and is subject to loan covenants. The Directors expect compliance with the covenants to continue to be met.

The directors have prepared forecasts in respect of future trading. Achievement of such forecasts would allow the entity to manage well within its current funding facilities for the foreseeable future. In developing these forecasts, the Directors have made assumptions and performed sensitivity analysis on variables such as revenues and employee costs based upon their view of the current and future economic conditions that will prevail over the forecast period of 12 months from the date of signing these financial statements. The Directors have not made any assumptions regarding generation of new revenue streams in the year ahead.

The Directors therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

(c) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as they apply to the financial statements of the Group for the year ended 30 June 2019 and are applied in accordance with the Companies Act 2006. The Group and the Company have 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 for the year ended 30 June 2021. See note 2(d) for further consideration.

(d) Accounting standards and Interpretations

The consolidated entity has adopted IFRS 16 *Leases* from 1 July 2019. The standard replaces IAS 17 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

At inception, the Group assesses whether a contract contains a lease. This assessment involves the exercise of judgement about whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

2. Summary of significant accounting policies (continued)

(d) Accounting standards and Interpretations (continued)

Previously all the Group's leases were accounted for as operating leases in accordance with IAS 17 Leases (see note 4 of the annual report and consolidated financial statements for the year ended 30 June 2019).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has adopted the standard using the modified retrospective approach, with the right-of-use asset being equal to the lease liability at the transition date. Therefore, the cumulative impact of the adoption is recognised in retained earnings as of July 2019 and the comparatives are not restated.

In applying IFRS 16 for the first time the Group has not applied any expedients. The impact of transition to IFRS 16 at 1 July 2019 is as follows:

Consolidated statement of financial position	\$000'
Non-current assets	
- right-of-use assets	618
Current liabilities	
- lease liabilities	361
Non-current liabilities	
- lease liabilities	257
	618

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019 of 9%.

	1 July 2019 \$000'
Operating lease commitment at 30 June 2019 as disclosed in the Group's consolidated financial statements	668
Discounted using the incremental borrowing rate at 1 July 2019	(50)
Lease liabilities recognised at 1 July 2019	618

New Accounting Standards and Interpretations not yet mandatory or early adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the year ended 30 June 2020. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

(e) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Structural Monitoring Systems Plc at the end of the reporting period. A controlled entity is any entity over which Structural Monitoring Systems Plc is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

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

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.

2. Summary of significant accounting policies (continued)

Business Combinations

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

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

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

(f) Foreign currency translation

(i) Functional currency

Items included in the financial statements of each of the companies in the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of Structural Monitoring Systems Plc is Australian dollars and its presentation currency is Australian dollars. The functional currency of its overseas subsidiary, Structural Monitoring Systems Limited, is Australian dollars and the functional currency of its overseas subsidiary, Anodyne Electronics Manufacturing Corp is Canadian dollars.

(ii) Transactions and balances

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

(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 profit and loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity and in other comprehensive income.

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

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

2. Summary of significant accounting policies (continued)

g) Impairment of property, plant and equipment

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

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

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

(h) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Group with maturities of less than three months. 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.

Trade, Group and other receivables

Trade, Group and other receivables are recorded initially at fair value and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts was recognised under an "incurred loss" model until 1 July 2018 and therefore it was dependent upon the existence of an impairment event. From 1 July 2018, the allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade, Group and other payables

Trade, Group and other payables are initially measured at fair value net of direct transaction costs and subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Group are recorded at fair value on initial recognition net of transaction costs.

Derecognition of financial assets (including write-offs) and financial liabilities

A financial asset (or part thereof) is derecognised when the contractual rights to cash flows expire or are settled, or when the contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership are transferred to another party. When there is no reasonable expectation of recovering a financial asset it is derecognised ("written off"). The gain or loss on derecognition of financial assets measured at amortised cost is recognised in profit or loss. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability (or part thereof) that is derecognised and the consideration paid is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

Impairment of financial assets

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both. The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

For trade receivables, material expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

For intercompany loans that are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If the subsidiary does not have sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date, an expected credit loss is calculated. This is calculated based on the expected cash flows arising from the subsidiary, and weighted for probability likelihood of variations in cash flows.

Definition of default

The loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default when the principal or any interest is significantly more than the associated credit terms past due, based on an assessment of past payment practices and the likelihood of such overdue amounts being recovered.

Write-off policy

Receivables are written off by the Group when there is no reasonable expectation of recovery, such as when the counterparty is known to be going bankrupt, or into liquidation or administration. Receivables will also be written off when the amount is more than materially past due.

(i) 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.

2. Summary of significant accounting policies (continued)

(j) Share-based payment transactions

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

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

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

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

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

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

(k) Revenue

Revenue recognition – Repair services

Repairs meet the definition of a distinct service whereby the associated revenue is to be recognised at a point in time, evidenced by the completion of the agreed upon service and delivery of the repaired parts/components to the customer. The point in time criteria are met as the following transfers of control exist: (a) The entity has the present right to payment for the asset; (b) the customer has the legal right to the asset; (c) the entity has transferred physical possession of the asset; (d) the customer has the significant risks and rewards of ownership of the asset; and (e) the customer has accepted the asset. Pricing is fixed and determinable pursuant to agreed upon pricing lists that establish stand-alone selling prices.

Revenue recognition – Product sales (stock or customised parts)

Product sales meet the definition of a distinct service whereby the associated revenue is to be recognised at a point in time, evidenced by the delivery of the products to the customer. The point in time criteria are met as the following transfers of control exist: (a) The entity has the present right to payment for the asset; (b) the customer has the legal right to the asset; (c) the entity has transferred physical possession of the asset; (d) the customer has the significant risks and rewards of ownership of the asset; (e) the customer has accepted the asset. Pricing is fixed and determinable pursuant to agreed upon pricing lists that establish stand-alone selling prices. There are no further performance obligations associated with these sales.

At times, multiple services or goods are sold to customers, however, contracts detail out separate prices for each different good or service purchased. As each service or good purchased has a standalone selling price in the negotiated contract there is no need to allocate a purchase price across multiple deliverables. In addition, each contract includes payment terms.

The Group recognises revenue on shipping for stock parts, customised product and customer product. When the Group provides a service (prototyping) it generally recognises revenue when the prototype is shipped or as the service is provided if there is no item to be shipped. The Group recognises revenue when it satisfies its performance obligation under the contract (when the Group ships the product which is also when the customer obtains control over the product or service).

2. Summary of significant accounting policies (continued)

(l) Inventories

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

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

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

(m) Property, plant and equipment

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

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

Plant and equipment	3 - 5 years
Leasehold improvements	5 years

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

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

(n) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(o) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in the statement of profit and loss and other comprehensive income arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

2. Summary of significant accounting policies (continued)

(o) Intangible assets (continued)

Goodwill

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

Research and development

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

Certifications

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

Licence agreement

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

Technology

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

(p) Impairment of non-financial assets

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

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

(q) Income tax

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

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

2. Summary of significant accounting policies (continued)

(r) 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.

(s) Borrowings

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

(t) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed repayments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(u) Employee entitlements

Short-term employee benefits

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

Defined contribution superannuation expense

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

2. Summary of significant accounting policies (continued)

(v) Investments in subsidiary undertakings

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

(w) Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions concerning the future which impact the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The accounting estimates resulting from these judgements and assumptions seldom equal the actual results but are based on historical experiences and future expectations.

i) Share-based payment transaction:

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

ii) Impairment resulting from acquisition of Anodyne Electronics Manufacturing (AEM)

Impairment of goodwill and intangible assets

An annual review is carried out (as set out in note 13) as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on (i) discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate; and/or (ii) the comparison of carrying value to the net selling price of the cash generating unit; the determination of these factors require the exercise of judgement.

iii) Impairment of inter-company receivables

The Company has intercompany loans to its subsidiary companies which are repayable on demand. As the subsidiaries did not have sufficient highly liquid resources to repay the loans at 30 June 2019, an expected credit loss provision is calculated under IFRS 9.

For Structural Monitoring Systems Canada Corporation, the calculation is based upon the expectation that AEM will trade profitably in the future and that this will allow it to repay the loans in time. Forecast cash flows under a range of possible outcomes are assessed to derive a probability-weighted value for the loan based upon the time taken to repay the outstanding amount in full. These calculations rely on management judgements as to the future cash flow forecasts and the probability weightings assigned. Further details on the impairment provision are set out in note 14 in the notes to the financial statements.

(iv) Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group entity based on known information. The consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

As at 30 June 2020, there are no other critical accounting estimates and judgements contained in the financial report.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

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 two industries, being structural health monitoring (CVM™) and the design and manufacture of avionics and audio systems. A third segment refers to the intellectual property (IP) held in another subsidiary of the Parent (CVM™ IP). Company overheads are recorded in the Parent entity operating in the structural health monitoring segment (CVM™).

Revenue to third parties by origin is Canada (for Avionics/audio) segment and Australia for (CVM™ segment). The Parent Company is registered in the UK.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2020 and 30 June 2019:

	CVM™ IP \$000'	Avionics/ audio \$000'	CVM™ \$000'	Total \$000'
Year ended 30 June 2020				
Revenue				
Sale of goods	-	17,183	12	17,195
Rendering of services	-	1,900	-	1,900
Total sales revenue	-	19,083	12	19,095
Other income	73	-	-	73
Interest revenue	3	-	-	3
FX gains/(losses)	(13)	164	(1)	150
Total segment revenue	63	19,247	11	19,321
Sales revenue by customer location				
Australasia	-	42	-	42
Africa	-	57	-	57
Europe	-	1,892	-	1,892
Americas	-	17,092	12	17,104
Total sales revenue	-	19,083	12	19,095
Result				
EBITDA*	(444)	4,178	(4,725)	(991)
Depreciation and amortisation	-	(1,013)	(39)	(1,052)
Interest revenue	3	-	-	3
Finance costs	(6)	(17)	(9)	(32)
Profit/(loss) before income tax expense	(447)	3,148	(4,773)	(2,072)
Income tax expense	-	(477)	-	(477)
Profit/(loss) for the year	(447)	2,671	(4,773)	(2,549)
Assets and liabilities				
Segment assets - current	821	10,909	1,291	13,021
Segment assets - non current	-	3,702	4	3,706
	821	14,611	1,295	16,727

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

3. Segment information (continued)

	CVM™ IP \$000'	Avionics/audio \$000'	CVM™ \$000'	Total \$000'
Segment liabilities - current	78	2,434	364	2,876
Segment liabilities - non current	-	433	18	451
	78	2,866	382	3,326

Other segment information

Capital expenditure	-	78	-	78
Depreciation	-	571	39	610
Amortisation	-	422	-	422

Year ended 30 June 2019

Revenue

Sale of goods	-	15,027	95	15,122
Rendering of services	-	1,258	-	1,258
Total sales revenue	-	16,285	95	16,380
Other income	32	-	-	32
Interest revenue	10	-	-	10
FX gains/losses	40	(57)	-	(17)
Total segment revenue	82	16,228	95	16,405

Sales revenue by customer location:

Australasia	-	215	-	215
Africa	-	4	-	4
Europe	-	1,459	-	1,459
Americas	-	14,607	95	14,702
Total sales revenue	-	16,285	95	16,380

Result

EBITDA*	(5,556)	2,364	(4,635)	(2,827)
Depreciation and amortisation	(2)	(660)	-	(662)
Interest revenue	10	-	-	10
Finance costs	(121)	(27)	-	(148)
Profit/(loss) before income tax expense	(669)	1,677	(4,635)	(3,626)
Income tax expense	-	(401)	-	(401)
Loss for the year	(669)	1,276	(4,635)	(4,027)

Assets and liabilities

Segment assets - current	1,063	10,505	578	12,146
Segment assets - non current	3	4,221	-	4,224
	1,066	14,726	578	16,370
Segment liabilities - current	475	2,776	291	3,542
Segment liabilities - non current	-	450	-	450
	475	3,226	291	3,992

Other segment information

Capital expenditure	-	230	-	230
Depreciation	1	259	-	260
Amortisation	-	402	-	402

*EBITDA is profit before income tax expense, depreciation, amortisation, finance income and finance costs

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

3. Segment information (continued)

Major customers

During the year ended 30 June 2020 approximately \$9.828m (2019: \$8.2m) of the Group's sales revenue was derived from sales to a single US aircraft and parts company.

Revenue

In accordance with IFRS 15, the group's revenue of \$19.095m (2019: \$16.380m) is made up of revenue from customers only and does not include any other revenue. Goods and services are transferred at a point in time, not over time, as detailed in the group's revenue recognition policy.

The Group does not have any contract assets or contract liabilities at 30 June 2020 (\$nil at 30 June 2019) as the group does not fulfil any of its performance obligations in advance of invoicing to its customer or bill in advance for work performed. The Group however does have contractual balances in the form of trade receivables.

The Group also does not have any contractual costs capitalised at 30 June 2020 (\$nil at 30 June 2019) or have any outstanding performance obligations at 30 June 2020 (\$nil at 30 June 2019).

4. Income and expenses

	Consolidated		Parent	
	2020	2019	2020	2019
Income	\$000'	\$000'	\$000'	\$000'
Other income				
Refunds	-	32	-	-
Sub-lease income	73	-	73	-
	73	32	73	-
Finance income/(costs)				
Foreign exchange gains/(losses)	150	(17)	(1)	-
Bank interest	3	10	-	-
Interest and finance charges payable on borrowings	(2)	(148)	(2)	-
Interest and finance charges payable on lease liabilities	(30)	-	(7)	-
	(121)	(155)	(10)	-
Analysis of expenses by nature				
Employee remuneration (see note 5)	5,277	4,058	1,075	900
Intangible assets				
Amortisation of other intangible assets	422	401	-	-
Property, plant and equipment				
Depreciation of plant and equipment	272	261	2	-
Depreciation of ROU assets	358	-	37	-
	630	261	39	-
Total depreciation and amortisation	1,052	662	39	-
Operating leases	-	367	-	58
Consumables and raw materials used	9,169	9,351	-	91
Provision for obsolescence	45	65	-	-
Freight	249	215	-	-
Auditor's remuneration (see note 29)	232	209	105	72
Impairment charges	-	-	446	125
Share-based payments expense (see note 23)	1,952	2,031	1,952	2,031
Research and development	345	417	-	156
Other costs of sales, distribution and administration	3,040	2,508	1,013	1,122
	21,361	19,884	4,630	4,556

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

4. Income and expenses (continued)

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

5. Employees and directors

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

	Consolidated		Parent	
	2020	2019	2020	2019
	No.	No.	No.	No.
Employee and directors' numbers				
Production	72	70	-	-
Research	19	17	-	-
Selling and distribution	14	13	4	5
Administration (including directors)	17	11	7	4
	122	111	11	9

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Employee remuneration				
Wages and salaries	4,624	3,501	1,075	890
Social security costs	404	332	-	-
Defined contribution costs	249	225	-	10
Total employee costs	5,277	4,058	1,075	900
Share-based payments	1,952	2,032	1,952	2,032
	7,159	6,090	2,958	2,932

Wages and salaries, include Directors' fees and other employee costs amounting to \$0.961m, were settled via the issue of Performance Rights.

Directors remuneration

Directors' fees, including superannuation, of \$0.569m (2019: \$0.410m) are included in employee expenses in the Statement of Profit and Loss and Other Comprehensive Income. Directors' share-based payments of \$0.757m (2019: \$0.597m) are included in share-based payments in the Statement of Profit or Loss and other comprehensive income. Refer to the Remuneration report in the Director's report for further details. This also includes details of the highest paid director.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

6. Income tax

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
The major components of income tax expense for the years ended 30 June 2020 and 30 June 2019 are:				
a) Income tax expense reported in Statement of Profit or Loss and Other Comprehensive Income				
Current tax expense	521	408	-	-
Deferred tax	(44)	(8)	-	-
Income tax expense reported in statement of comprehensive income	477	400	-	-
A reconciliation of income tax expense/(benefit) applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the effective income tax rate for the years ended 30 June 2020 and 30 June 2019 is as follows:				
Accounting loss before tax from continuing operations at the statutory income tax rate of 27.50% (2019: 27.50%)	(2,072)	(3,627)	(4,683)	(4,461)
Expenses not assessable for income tax purposes	(570)	(9,997)	(1,288)	(1,227)
Deferred tax not recognised	644	3,871	3,951	3,748
Income tax expense reported in Statement of Profit or Loss and Other Comprehensive Income	(551)	(3,274)	(2,663)	(2,521)
	(477)	(400)	-	-
Deferred tax (assets)/liabilities				
Deferred tax assets and liabilities are attributable to the following:				
Accrued expenses	63	112	(25)	(3)
Tax losses	11,525	11,718	2,626	2,101
Deferred tax not recognised	(11,589)	(11,830)	(2,601)	(2,098)

Potential deferred tax assets attributable to tax losses have not been brought to account at 30 June 2020 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- the Group continues to comply with conditions for deductibility imposed by law; and
- no changes in legislation adversely affect the Group in realising the benefit from the deductions for the loss.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

6. Income tax (continued)

	Business combination	Tax losses	Other timing difference	Total
2020	\$000'	\$000'	\$000'	\$000'
Recognised deferred tax liabilities				
Movement in deferred tax liabilities during the year:				
Brought forward	597	-	(147)	450
Charge to Statement of Profit or Loss and Other Comprehensive Income	(44)	-	(9)	(53)
Carried forward	553	-	(156)	397

	Business combination	Tax losses	Other timing difference	Total
2019	\$000'	\$000'	\$000'	\$000'
Recognised deferred tax liabilities				
Movement in deferred tax liabilities during the year:				
Brought forward	708	(107)	(137)	464
Charge/(credit) to Statement of Profit or Loss and Other Comprehensive Income	(111)	107	(10)	(14)
Carried forward	597	-	(147)	450

7. Earnings 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.

The number of options at 30 June 2020 was nil (2019: nil) and the number of performance rights at 30 June 2019 was 4,082,270 (2019: 3,075,000). Of those performance rights 1,007,270 were exercisable at 30 June 2020 but have been excluded from the diluted earnings per share calculation on the basis they are anti-dilutive.

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

	Consolidated	
	2020	2019
	\$000'	\$000'
Net loss attributable to equity holders from continuing operations	(2,549)	(4,027)
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for basic loss per share	116,500,559	114,886,601
Weighted average number of ordinary shares for diluted loss per share	116,500,559	114,866,601

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

8. Current assets – Trade receivables

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Trade receivables	2,991	3,334	3	-

9. Current assets – Prepayments and other receivables

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Prepayments	134	222	19	9
Bank guarantee	66	66	-	-
Other receivable	90	-	89	-
GST receivable	30	65	-	-
Deposits	43	8	8	8
	363	361	116	17

Bank guarantee held in security for a premises lease

10. Current assets - Inventory

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Raw materials	3,988	3,496	-	-
Work in progress	1,089	1,335	-	-
Finished goods	2,204	1,443	184	-
Provision for obsolescence	(159)	(114)	-	-
	7,122	6,160	184	-

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

11. Non-current assets – Property, plant and equipment

	Leasehold improvements	Plant and equipment	Total
Consolidated	\$000'	\$000'	\$000'
Balance at 1 July 2019	92	448	540
Additions	12	75	87
Depreciation expense	(30)	(272)	(302)
Effect of FX movement on balances	(1)	18	17
Balance at 30 June 2020	73	269	342
Balance at 1 July 2018	113	424	537
Additions	2	228	230
Depreciation expense	(29)	(231)	(260)
Effect of FX movement on balances	6	27	33
Balance at 30 June 2019	92	448	540

12. Non-current assets – Right-of-use assets

	Consolidated		Parent	
	2020	2019	2020	2019
Consolidated	\$000'	\$000'	\$000'	\$000'
Land and buildings – right-of-use	454	-	-	-
Less: Accumulated depreciation	(303)	-	-	-
	151	-	-	-
Motor vehicle – right-of-use	17	-	-	-
Less: Accumulated depreciation	(5)	-	-	-
	12	-	-	-
	163	-	-	-

The Group leases land and buildings for its offices and a manufacturing facility under agreements of between 6 months and 15 months.

The Group also leases a motor vehicle under a 3 year agreement.

13. Non-current assets – Intangible assets and goodwill

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

	Goodwill	Certifications	Licence agreement	Technology	Total
Consolidated	\$000'	\$000'	\$000'	\$000'	\$000'
Balance at 1 July 2019	1,475	838	76	1,295	3,684
Amortisation expense	-	(244)	(22)	(156)	(422)
Effect of FX on balances	(31)	(8)	(1)	(21)	(61)
Balance at 30 June 2020	1,444	586	53	1,118	3,201

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For the Year Ended 30 June 2020

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13. Non-current assets – Intangible assets and goodwill (continued)

	Goodwill	Certifications	Licence agreement	Technology	Total
	\$000'	\$000'	\$000'	\$000'	\$000'
Consolidated					
Balance at 30 June 2018	1,387	1,013	92	1,361	3,853
Amortisation expense	-	(232)	(21)	(148)	(401)
Effect of FX on balances	88	57	5	82	232
Balance at 30 June 2019	1,475	838	76	1,295	3,684

Intangible assets

Certifications

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

Licence agreement

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

Technology

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

Amortisation

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

Certifications – 5 years, remaining amortisation period is 3.5 years

Licence agreement – 5 years, remaining amortisation period is 3.5 years

Technology – 10 years, remaining amortisation period is 8.5 years

Impairment testing

Goodwill of \$1.444m acquired through business combinations has been allocated to the AEM cash generating unit (2019: \$1.402m).

The impairment test has been carried out using a discounted cash flow model covering a 5 year period. Cash flow projections are based on a budget for 2020/2021 approved by management and extrapolated for a further 4 years using a steady rate, together with a terminal value, approved by management. The principal assumptions made in determining the recoverable amount of goodwill as at 30 June 2020 include revenue growth of 4-6% per annum from 2022, EBITDA margin of 14% (2019: 14%) and a discount rate of 14.1% (2019: 16.3%).

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% less favourable in management's estimate the Group would need to reduce the carrying value of goodwill by \$nil (2019: \$nil).

If the EBITDA margin applied to the discounted cash flows had been 10% less favourable in management's estimate the effect on the Group would have been to reduce the carrying value of goodwill by \$nil (2019: \$nil).

The same reduction of \$nil (2019: \$nil) applies if revenues had been 10% less favourable.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of AEM's division's goodwill is based would not cause the cash generating unit's carrying amount to exceed its recoverable amount.

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14. Non-current assets/(liabilities) - Loans

Company	Loans to subsidiary undertakings \$000'	Total \$000'
Year ended 30 June 2020		
Cost		
At 1 July 2019	22,990	22,990
Arising during the year	24	24
At 30 June 2020	23,014	23,014
Impairment		
At 1 July 2019	(11,171)	(11,171)
Impairment charge	(446)	(446)
	(11,617)	(11,617)
Net carrying amount at 30 June 2020	11,397	11,397
Year ended 30 June 2019		
Cost		
At 1 July 2018	24,571	24,571
Arising during the year	(1,581)	(1,581)
At 30 June 2019	22,990	22,990
Impairment		
At 1 July 2018	(11,046)	(11,046)
Impairment charge	(125)	(125)
	(11,171)	(11,171)
Net carrying amount at 30 June 2019	11,819	11,819

Company	Loans from subsidiary undertakings \$000'	Total \$000'
Year ended 30 June 2020		
Cost		
At 1 July 2019	305	305
Received during the year	616	616
Net carrying amount at 30 June 2020	921	921
Year ended 30 June 2019		
Cost		
At 1 July 2018	-	-
Received during the year	305	305
Net carrying amount at 30 June 2019	305	305

Loans to/from subsidiaries are unsecured, have no fixed date for repayment and attract no interest charge. As the parent does not intend to call in the loans within the next 12 months the loans to subsidiaries are classified as non-current assets.

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14. Non-current assets/liabilities - Loans (continued)

See Note 25 for further details on impairment of intercompany receivables. The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

	Country of Incorporation	Type of equity	% Equity 2020	Interest 2019
Structural Monitoring Systems Limited Registered office: Suite 116, 1 Kyle Way Claremont WA 6010 Australia	Australia	Ordinary share	100	100
Structural Health Monitoring Systems Canada Corp (SMSCC) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	100
Anodyne Electronics Manufacturing Corp (AEM) Registered office: Unit 15, 1925 Kirschner Road Kelowna BC Canada	Canada	Ordinary share	100	100

15. Current liabilities – Trade and other payables

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Trade payables	602	950	18	204
Taxes payable – HST, payroll tax	14	27	-	-
Accrued royalty fees plus interest	-	390	-	-
Other payables	888	1,216	227	87
	1,504	2,583	245	291

Trade payables are non-interest bearing and are normally settled within 30 day terms. Other payables are non-interest bearing and have an average term of 42 days.

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16. Current liabilities - Borrowings

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Credit card	39	-	-	-
Overdraft - secured	441	729	-	-
	480	729	-	-

AEM has a secured overdraft facility with a banking institution. The facility has a limit of CAD\$3million (2019:CAD\$2million) secured on trade receivables and inventory. The variable interest rate on the facility is 3.45%.

17. Current liabilities - Deposits

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Deposit held pending issue of shares	43	-	43	-

18. Lease liabilities

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Balance at 1 July 2019	618	-	168	-
Interest charged	35	-	7	-
Repayments during the year	(414)	-	(81)	-
Effect of foreign exchange on balances	23	-	-	-
Closing balance	262	-	94	-
Spilt between	208	-	75	-
Current	54	-	19	-
Non-current	262	-	94	-

19. Current liabilities – Tax payable

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Provision for income tax	640	230	-	-

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20 (a). Reconciliation of the net loss after tax to the net cash flows from operations

	Consolidated		Parent	
	2020 \$000'	2019 \$000'	2020 \$000'	2019 \$000'
Loss before tax for the year	(2,072)	(3,626)	(4,683)	(4,461)
<i>Adjustments for:</i>				
Loss on debt for equity swap	127	-	127	-
Share based payments	1,952	2,031	1,883	2,031
Directors fees and other employee costs settled via performance rights	936	-	936	-
Depreciation and amortisation	1,052	662	39	-
Impairment of investments in subsidiaries	-	-	446	125
<i>Changes in assets and liabilities</i>				
Trade receivables	343	(467)	(3)	-
Prepayments and other receivables	(2)	(76)	(99)	(17)
Inventory	(962)	(1,450)	(184)	-
Trade and other payables	(1,032)	1,121	(33)	244
Net cash provided by/(used in) operating activities	342	(1,805)	(1,435)	(2,078)

20 (b). Cash and cash equivalents

Cash at bank	2,544	2,290	-	-
Cash on hand	1	1	-	-
Credit card	(39)	-	-	-
Overdraft	(441)	(729)	-	-
	2,065	1,562	-	-

21. Changes in liabilities arising from financing activities

Consolidated	Lease liability \$000'
Balance at 1 July 2019	-
Transition to IFRS 16 adjustment	618
Net cash used in financing activities	(386)
Acquisition of leases	17
FX movement	13
Balance at 30 June 2020	262

Notes to the Financial Statements

For the Year Ended 30 June 2020

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22. Employee benefits

(a) Employees incentive plan

On 11 December 2018 shareholders approved the Employee Incentive Plan (EIP) for the granting of non-transferable shares or performance rights (PRs) to directors, employees and relevant contractors with more than six months' service at the grant date. The shares vest immediately and the PRs vest upon the satisfaction of the relevant performance hurdles within 3 years of issue. Under the plan shares will be offered at a 12.5% discount to the lowest 5 day VWAP (calculated by taking the lowest 5 daily share price VWAPs for that quarter – and taking the average). 2,105,157 shares were issued to employees under the plan during the reporting period. Full details of issues during the year can be found in note 23 Share-based payments.

(b) Pensions and other post-employment benefit plans

AEM maintains a defined contribution pension plan for its' employees. AEM contributes 5% of salary to the Plan. Employees must be employed with the company for 12 months before they are entitled to the benefit. There are currently 78 employees participating in the plan. Contributions are paid monthly and recognised in the Statement of comprehensive income totalling \$0.404m (2019: \$0.332m). Contributions of \$0.044m (2019: \$0.027m) are outstanding at 30 June 2020.

23. Share-based payments

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

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Issue of performance rights to directors and executives	1,275	988	1,275	988
Issue of shares to directors and executives	-	57	-	57
Issue of performance rights to other consultants	162	85	162	85
Issue of performance rights to eligible staff under EIP	515	901	515	901
	1,952	2,031	1,952	2,031

Performance Rights - Directors

On 12 December 2019 shareholders approved the issue of 150,000 Performance Rights (PRs) as remuneration to Will Rouse and the issue of 210,000 PRs as remuneration to Stephen Forman, both Directors of the Company, under the Company Employee Incentive Plan (EIP).

All Director PRs are subject to continued services with the Company and tranches 4, 5 and 6 vest based on the attainment of share price barriers within 2 years of the issue date. In the case of Steve Forman, PRs are subject to his continued employment for two years from grant date. Tranches 8, 9 and 10 were granted to Stephen Forman in lieu of directors' fees. Tranche 7 is an annual award of 60,000 PRs to Steven Forman in accordance with his contract of employment. The sole vesting condition for Will Rouse is continued employment as director to the respective vesting dates, December 2019 to December 2020.

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23. Share-based payments (continued)

The following Director PRs were granted as remuneration during the year:

Director	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10
W Rouse	50,000	50,000	50,000	-	-	-	-	-	-	-
S Forman	-	-	-	50,000	50,000	50,000	60,000	14,328	21,490	21,490
Fair value at grant date (\$)	1.009	1.009	1.009	0.695	0.529	0.41	1.009	1.009	1.009	1.009
Total valuation over vesting period (\$)	50,450	50,450	27,543	9,589	7,299	5,657	60,540	14,457	21,683	21,683

The Black-Scholes pricing model was used in the valuations of performance rights issued during the year, except for tranches 4, 5 and 6 which were measured using the trinomial option pricing model.

Volatility is determined by calculating the standard deviation of the closing price annualised over the period of time equal to that of the term of the PR prior to grant date. It shows the range to which the share price will increase or decrease over the term of the performance period.

Also on 12 December 2019 shareholders approved the issue of 514,859 PRs to directors in lieu of fees for the year to 30 June 2020. The fair value of the PRs granted to directors, executives and staff in lieu of fees was \$0.520m. The loss on swap of equity for debt of \$0.127m was recorded through the statement of profit or loss and other comprehensive income.

Performance Rights – Executive

On 18 November 2019 the Board granted 75,000 PRs to an executive under the EIP. The PRs have a fair value of \$0.070m determined by the closing share price on grant date.

The same executive was granted 318,933 PRs in lieu of fees for the period to 31 March 2020. The fair value of \$0.219m was determined by the closing share price on grant date.

Performance Rights - Consultants

On 18 November 2019 The Board granted the issue of 75,000 PRs to 2 consultants under the EIP. The PRs have a fair value of \$0.070m determined by the closing share price on grant date.

In addition to directors and executives, 2 other consultants elected to receive PRs in lieu of fees during the year. A total of 333,074 PRs were issued and the fair value of \$0.244m was determined by the closing share price on grant date.

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

			Weighted ave ex price	
	2020 No.	2019 No.	2020 \$	2019 \$
At 1 July 2019	3,075,000	2,625,000	2.75	2.71
Granted	1,722,447	450,000	-	3.00
Exercised	(715,177)	-	-	-
Forfeited	-	-	-	-
At 30 June 2020	4,082,270	3,075,000	2.07	2.75
Exercisable at 30 June 2020	1,007,270	-	-	-

The contractual term remaining on performance rights outstanding at 30 June 2020 is 12 months (2019: 18 months).

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23. Share-based payments (continued)

The outstanding number of performance rights at 30 June 2020 and 30 June 2019 was as follows:

Exercise price \$	Grant date	Expiry date	2020 No.	2019 No.
\$0.001	7 April 2020	7 April 2023	143,055	-
\$0.001	18 November 2019	18 November 2022	78,296	-
\$0.001	12 December 2019	12 December 2022	754,271	-
\$0.001	3 October 2019	3 October 2022	31,648	-
\$2.00	15 August 2018	15 August 2021	25,000	25,000
\$2.50	15 August 2018	15 August 2021	25,000	25,000
\$3.00	15 August 2018	15 August 2021	25,000	25,000
\$3.25	15 August 2018	15 August 2021	25,000	25,000
\$3.50	15 August 2018	15 August 2021	25,000	25,000
\$3.75	15 August 2018	15 August 2021	25,000	25,000
\$2.00	15 April 2018	15 April 2021	50,000	50,000
\$2.50	15 April 2018	15 April 2021	50,000	50,000
\$3.00	15 April 2018	15 April 2021	50,000	50,000
\$3.25	15 April 2018	15 April 2021	50,000	50,000
\$3.50	15 April 2018	15 April 2021	50,000	50,000
\$3.75	15 April 2018	15 April 2021	50,000	50,000
\$2.00	7 December 2017	7 December 2020	600,000	600,000
\$2.20	7 December 2017	7 December 2020	450,000	450,000
\$2.50	7 December 2017	7 December 2020	250,000	250,000
\$2.75	7 December 2017	7 December 2020	400,000	400,000
\$3.00	7 December 2017	7 December 2020	150,000	150,000
\$3.15	7 December 2017	7 December 2020	150,000	150,000
\$3.25	7 December 2017	7 December 2020	100,000	100,000
\$3.50	7 December 2017	7 December 2020	175,000	175,000
\$3.75	7 December 2017	7 December 2020	225,000	225,000
\$4.00	7 December 2017	7 December 2020	125,000	125,000
			4,082,270	3,075,000

1,007,270 performance rights were issued during the year and are exercisable at 30 June at no cost.

Shares issued to eligible staff and consultants under EIP

No. issued	Grant date	Issue price	Share price at grant date	Share-based payment charge
		\$	\$	\$000'
291,347	19/8/2019	0.60	0.885	83
597,499	13/12/2019	0.59	0.885	175
1,216,311	21/4/2020	0.45	0.450	188
2,105,157				446

Details of the EIP are included in Note 22. Employee benefits

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24. Issued capital and reserves

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Ordinary Shares				
On issue 118,382,619, (2019: 115,562,285) par value £0.005				
Issued and fully paid	31,946	31,932	31,946	31,932
Total issued and fully paid	31,946	31,932	31,946	31,932

	Shares on issue (No.)	\$000'
<i>Movement in ordinary shares in issue</i>		
At 30 June 2018	114,398,645	31,927
Issued on 14 August 2018 – share-based payments	450,000	2
Issued on 6 March 2019 – share-based payments	274,679	1
Issued on 6 March 2019 – share-based payments	438,961	2
At 30 June 2019	115,562,285	31,932
Issued on 26 August 2019* – CDIs issued	291,347	1
Issued on 20 Dec 2019* – CDIs issued	597,499	3
Issued on 21 April 2020* – CDIs issued	1,216,311	6
Issued on 17 April 2020 – conversion of PRs	715,177	4
At 30 June 2020	118,382,619	31,946

*Chess depositary interests (CDIs) issued to employees at below market price.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

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24. Issued capital and reserves (continued)

	Consolidated		Parent	
	2020 \$000'	2019 \$000'	2020 \$000'	2019 \$000'
Share Premium Reserve				
Share Premium Reserve	35,967	35,106	35,967	35,106

	Shares on issue (No.)	\$000'
<i>Movement in ordinary shares in issue</i>		
At 1 July 2018	114,398,645	34,919
Issued on 14 August 2018 – share-based payments	450,000	-
Issued on 7 March 2019 – share-based payments	274,679	203
Issued on 7 March 2019 – share-based payments	438,961	-
Share issue - costs	-	(16)
At 30 June 2019	115,562,285	35,106
Issued on 26 August 2019* – CDIs issued	291,347	175
Issued on 20 Dec 2019* – CDIs issued	597,499	351
Issued on 21 April 2020* – CDIs issued	1,216,311	347
Issued on 17 April 2020 – conversion of PRs	715,177	-
Share issue - costs	-	(12)
At 30 June 2020	118,382,619	35,967

*Chess depositary interests (CDIs) issued to employees at below market price.

	Consolidated		Parent	
	2020 \$000'	2019 \$000'	2020 \$000'	2019 \$000'
Other Reserves				
Foreign currency translation reserve	(1,976)	(1,703)	(2,271)	(2,271)
Share-based payment reserve	3,492	1,586	3,492	1,586

	Unlisted options on issue*	Performance rights on issue (PRs)	\$000'
	No.	No.	
<i>Share-based payment reserve</i>			
Outstanding at 30 June 2018	1,829,136	2,625,000	513
Grant of PRs – 29 December 2017	-	-	956
Grant of PRs – 7 August 2018	-	450,000	117
Expiry of options – 15 February 2019	(1,829,136)	-	-
Outstanding at 30 June 2019	-	3,075,000	1,586
* 1,829,136 options with an exercise price of \$2.25 expired on 15 February 2019.			
Grant of PRs – 29 December 2017	-	-	959
Grant of PRs – 7 August 2018	-	-	106
Grant of PRs – 4 October 2019	-	120,986	114
Grant of PRs – 18 November 2019	-	317,340	407
Grant of PRs – 12 December 2019	-	874,859	679
Grant of PRs – 2 April 2020	-	409,262	194
Conversion of PRs – 17 April 2020	-	(715,177)	(553)
Outstanding at 30 June 2020	-	4,082,270	3,492

24. Issued capital and reserves (continued)

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 currently £0.005 (2019: £0.005). Costs of the issues are written off against the reserve.

Share-based payment reserve

The share-based payment 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.

Reserves classified on the face of the consolidated statement of financial position as retained earnings represent accumulated earnings and are distributable. All the other reserves are non-distributable.

Accumulated losses

Reserves classified on the face of the consolidated statement of financial position as accumulated losses are distributable. All other reserves are non-distributable.

25. Financial risk management objective and policies

Financial risk management

Overview

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

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

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

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

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25. Financial risk management objective and policies (continued)

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

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

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

Interest rate risk

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

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

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis as 2019.

Consolidated - 30 June 2020	Carrying value at year end \$000'	Profit or loss		Equity	
		100bp increase	100bp decrease	100bp increase	100bp decrease
		\$000'	\$000'	\$000'	\$000'
Cash and cash equivalents	2,545	26	(26)	26	(26)
Borrowings	(480)	(5)	5	(5)	5
		21	(21)	21	(21)
Consolidated – 30 June 2019					
Cash and cash equivalents	2,291	23	(23)	23	(23)
Borrowings	(729)	(7)	7	(7)	7
		16	(16)	16	(16)

Credit and cash flow risk

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

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25. Financial risk management objective and policies (continued)

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

With respect to credit and cash flow risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit and cash flow risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. This risk is minimised by reviewing term deposit accounts from time to time with approved banks of a sufficient Fitch Ratings credit rating of at least A-, Moody's credit rating of at least A2, and Standard & Poor's credit rating of at least A-. The Group does not place funds on terms longer than 30 days and has the facility to place the deposit funds with more than one bank. The Group does not hold collateral as security for any of its' receivables.

The Company has exposure to credit and cash flow risk arising from the making of loans to subsidiaries. The loans carry no interest rate or date for repayment. Loans are impaired to the carrying value of the subsidiaries' assets.

The Group and Company undertake the following procedures to determine whether there has been a significant increase in the credit risk of its other receivables, including group balances, since their initial recognition. Where these procedures identify a significant increase in credit risk, the loss allowance is measured based on the risk of a default occurring over the expected life of the instrument rather than considering only the default events expected within 12 months of the year-end.

The Group and Company have not determined that credit risk has increased during the year in respect of the Group's trade receivables.

Exposure to credit and cash flow risk

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

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Cash and cash equivalents	2,545	2,291	-	-
Trade receivables	2,991	3,334	3	-
Loans to subsidiaries	-	-	11,397	11,819
	5,536	5,625	11,400	11,819

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

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Europe	502	759	-	-
Americas	4,259	3,858	-	-
Australasia	720	932	-	-
Other	55	76	-	-
	5,536	5,625	-	-

Trade receivables at 30 June 2020 represent 57 debtors days (2019: 74 debtor days).

There were no trade receivables impairment losses at 30 June 2020 (2019: \$nil).

No expected credit loss provision in respect of trade receivables has been recognised on the basis this is immaterial. The expected credit loss rate applied has been calculated based on historical recovery rates of low bad debt write offs. This is also supported by strong post year end collection of cash.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

25. Financial risk management objective and policies (continued)

Impairment of company receivables from subsidiaries

The Company's group receivables represent trading balances and loan amounts advanced to other group companies with no fixed repayment dates. Under IFRS 9 the fair value of this intercompany receivable is repayable on demand to the Company.

The Company was due the following amounts as at 30 June 2020 before the recognition of any impairment loss provisions:

	SMS Ltd	SMSCC	Total
	\$000'	\$000'	\$000'
Gross	12,360	10,654	23,014
Impairment	(11,617)	-	(11,617)
Carrying value at 30 June 2020	743	10,654	11,397

In respect of the balance due from Structural Monitoring Systems Limited (SMS Ltd), the Company did not have sufficient liquid resources at 30 June 2020 to repay the loan in full. An impairment loss provision has been recognised to the extent the carrying value at 30 June 2020 is covered by the recovery of net assets in the balance sheet of SMS Ltd. This has been measured based on lifetime expected credit losses on the basis that credit risk has increased since initial recognition.

In respect of the balance due from Structural Monitoring Systems Canada Corporation (SMSCC), the Company did not have sufficient liquid resources at 30 June 2020 to repay the loan in full. However, on the basis that there has been no significant increase in credit risk and the balance is expected to be recovered by the subsidiary's trading, no impairment loss provision has been recognised on the basis that any impairment loss provision would be immaterial (2019: \$nil). This has been measured based on 12 month expected credit losses.

Credit risk

The measurement of impairment losses depends on whether the financial asset is 'performing', 'underperforming' or 'non-performing' based on the company's assessment of increases in the credit risk of the financial asset since its initial recognition and any events that have occurred before the year-end which have a detrimental impact on cash flows.

The financial asset moves from 'performing' to 'underperforming' when the increase in credit risk since initial recognition becomes significant.

In assessing whether credit risk has increased significantly, the company compares the risk of default at the year-end with the risk of a default when the investment was originally recognised using reasonable and supportable past and forward-looking information that is available without undue cost.

The risk of a default occurring takes into consideration default events that are possible within 12 months of the year-end ("the 12-month expected credit losses") for 'performing' financial assets, and all possible default events over the expected life of those receivables ("the lifetime expected credit losses") for 'underperforming' financial assets.

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	Carrying amount	Contractual cash flows	1 year or less	More than 1 year
30 June 2020	\$000'	\$000'	\$000'	\$000'
Trade and other payables	(1,490)	(1,490)	(1,490)	-
Borrowings	(480)	(480)	(480)	-
Lease liabilities	(305)	(305)	(249)	(56)
	(2,275)	(2,275)	(2,219)	(56)

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

25. Financial risk management objective and policies (continued)

Consolidated 30 June 2019	Carrying amount \$000'	Contractual cash flows \$000'	1 year or less \$000'	More than 1 year \$000'
Trade and other payables	(2,556)	(2,556)	(2,556)	-
Borrowings	(729)	(729)	(729)	-
	(3,285)	(3,285)	(3,285)	-

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

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2020 \$000'	2019 \$000'	2020 \$000'	2019 \$000'
Financial assets measured at amortised cost				
Cash and cash equivalents	2,545	2,291	-	-
Trade receivables	2,991	3,334	3	-
Loans to subsidiary undertakings	-	-	11,397	11,819
	5,536	5,625	11,400	11,819
Financial liabilities measured at amortised costs				
Borrowings	480	729	-	-
Trade and other payables	1,490	2,584	245	291
Lease liabilities	262	-	94	-
Loans from subsidiary undertakings	-	-	921	305
	2,232	3,313	1,260	596

Foreign currency risk

The Group undertakes sales and purchases that are denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations in the US dollar, Canadian dollar, the Euro and the British pound. The fair value of the Group and Parent Company financial assets and liabilities are not materially different to their book values.

Exposure to currency risk

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

30 June 2020					
In AUD	AUD000'	CAD000'	USD000'	GBP000'	Total 000'
Cash	255	243	2,047	-	2,545
Trade receivables	3	236	2,752	-	2,991
Trade and other payables	(199)	(544)	(685)	(62)	(1,490)
	59	(65)	4,114	(62)	4,046

30 June 2019					
In AUD	AUD000'	CAD000'	USD000'	GBP000'	Total 000'
Cash	667	182	1,442	-	2,291
Trade receivables	-	236	3,098	-	3,334
Trade and other payables	(614)	(1,306)	(591)	(45)	(2,556)
	53	(888)	3,949	(45)	3,069

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

25. Financial risk management objective and policies (continued)

The Group had net assets denominated in foreign currencies of \$3.987m as at 30 June 2020 (2019: net assets of \$3.016m). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% (2019: weakened by 10%/strengthened by 5%) against these foreign currencies with all other variables held constant, the Group's loss before tax for the year would have been \$0.170m higher/\$0.085m lower (2019: \$0.136m higher/\$0.068m lower).

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

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2020	2019	2020	2019
AUD:CAD	0.900	0.947	0.939	0.919
AUD:USD	0.671	0.716	0.686	0.701

Capital risk management

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

Given the level of operations of the Group, the Board has a secured overdraft facility available with a credit limit of CAD\$3 million. It has not made use of long term debt financing, but has instead chosen to raise additional capital by issuing shares. The Board regularly monitors, liquidity, exchange rates, cash flow and financial assets and liabilities balances by means of financial reports and cashflow forecasting.

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

26. Commitments and contingencies

During the year a claim for royalties was finalised by Structural Monitoring Systems Limited ("the Company"). The Company had previously made a provision for finalisation of the claim. The amount paid including interest, was \$367,652.

A further claim for royalties amounting to \$435,064 including interest (2019: claim received \$389,557 inc GST/interest) has not been provided for based on the current status of the case where evidence is still not complete and therefore the directors are satisfied the payment royalty claim is not probable at this stage of the proceedings.

At the reporting date there are no other changes to commitments or contingent liabilities.

The commitments of the Group are as follows:

	Consolidated		Parent	
	2020	2019	2020	2019
	\$000'	\$000'	\$000'	\$000'
Operating lease commitments				
<i>Land and buildings</i>				
Within one year	-	247	-	81
Later than one year but not later than 5 years	-	98	-	98
	-	346	-	179

Following the adoption of IFRS 16 *Leases* on 1 July 2019 the Group has no operating lease commitments. Lease liabilities are disclosed in note 19.

The Group's subsidiary, Anodyne Electronics Manufacturing Corp (AEM), signed a new letter of intent in June 2020 for a new office space to be built during FY2021. The company is not expected to take possession until FY2022. The lease is for a period of ten years effective from when the premises are available to the company to commence improvement works. The Group's total commitment over a ten year period is CAD\$6.851m.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

27. 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	
		2020	2019
Structural Monitoring Systems Ltd	Australia	100	100
Structural Monitoring Systems Canada Corp (SMSCC)	Canada	100	100
Anodyne Electronics Manufacturing Corp (AEM)	Canada	100	100

Structural Monitoring Systems Plc is the ultimate parent entity and is incorporated in the United Kingdom. The Company carries on the business of developing the Group's structural health monitoring technology.

Structural Monitoring Systems Limited is a subsidiary of the Group and is incorporated in Australia. It is the owner of the intellectual property pertaining to the structural health monitoring technology.

SMSCC was incorporated on 24 October 2017.

Anodyne Electronics Manufacturing Corporation (AEM), was acquired by SMSCC on 8 December 2017 for a consideration of \$10,998,750.

Remuneration paid to the directors and executives, who are considered key management personnel, for the year is disclosed in the remuneration report in the Directors' Report.

The share-based payments charge for directors and executives for the year was \$1.275m (2019: \$0.988m).

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

	2020 \$000'	2019 \$000'
Due to executive – Toby Chandler	69	56
Due to director – Michael Reveley	-	44
Due to director – Will Rouse	-	30
Due to director – Terry Walsh	-	29
Due to director – Stephen Forman	-	-

28. Events after the balance sheet date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and whilst it has had no major financial impact for the Group to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian and Canadian governments and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

Structural Monitoring Systems Plc

29. Auditors' remuneration

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

	Consolidated		Parent	
	2020 \$000'	2019 \$000'	2020 \$000'	2019 \$000'
Fees payable to RSM UK Audit LLP and its associates in respect of both audit and non-audit services are as follows:				
Audit services – statutory audit of parent and consolidated accounts fees payable to the company's auditor for the audit of the companies annual accounts.	80	45	80	45
Audit of the accounts of subsidiaries	108	97	-	-
Other services				
Audit-related assurance services	38	45	25	21
Taxation compliance services	-	16	-	6
Taxation advisory services	6	6	-	-
	232	209	105	72

Opinion

We have audited the financial statements of Structural Monitoring Systems PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2020 which comprise of the group and parent company Statement of profit or loss and other comprehensive income, group and parent company Statement of financial position, group and parent company Statement of cash flows, group and parent company Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2020 and of the group's and parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Summary of our audit approach

Key audit matters

Group

- Impairment of goodwill and intangible assets
- Valuation of inventory

Parent Company

We have not identified any additional key audit matters in respect of the company statement financial statements.

Materiality

Group

- Overall materiality: \$139,000 (2019: \$143,000)
- Performance materiality: \$104,000 (2019: \$107,000)

Parent Company

- Overall materiality: \$69,000 (2019: \$114,000)
- Performance materiality: \$51,700 (2019: \$85,500)

Scope

Our audit procedures covered 100% of revenue, 100% of total assets and 100% of loss before tax.

Key audit matters

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

Impairment of goodwill and intangible assets

Key audit matter description

The Group acquired its subsidiary, Anodyne Electronics Manufacturing Corp, in the year ended 30 June 2018. The recoverability of the goodwill and intangibles assets, of \$3.7m at 30 June 2020, arising on this acquisition is dependent on the individual cash-generating unit to which the goodwill and intangible assets are allocated generating sufficient cash flows in the future. Due to the inherent uncertainty involved in forecasting future cash flows and the judgements involved in selection of an appropriate discount rate, which are the basis of the assessment of recoverability, this is considered a key audit matter. Refer to note 13 to the financial statements for the disclosures relating to the goodwill and the related impairment calculations.

How the matter was addressed in the audit

Our audit procedures included reviewing management's discounted cash flow model, testing and challenging the judgements and assumptions used by management in their assessment of whether the cash-generating unit to which goodwill is allocated is impaired and assessing management's sensitivity analysis on the cash flow model. We have assessed the inputs in determining the discount rate used to calculate the present value of projected future cash flows. We have also assessed the validity of the model and challenged the valuation model and the basis of management's impairment considerations. We assessed management's earnings assumptions in the model compared to current year performance and forecasted performance for the next financial year. We have reviewed management's sensitivity analysis of key assumptions, including the revenue growth forecasts and the discount rate. We have further considered whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions were adequate and properly reflected the risks inherent in the valuation of the cash-generating unit.

Key observations

Due to the amount of headroom in the calculation no material matters arose from our work in this area.

Valuation of inventory

Key audit matter description

As at 30 June 2020, the Group held inventories of \$7.1m. As described in the Accounting Policies in note 2 to the financial statements, inventories are carried at the lower of cost and net realisable value. Cost comprises of direct materials and delivery costs, as well as an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. As a result, judgement is applied in determining the level of provisions required for obsolete inventory and an appropriate apportionment of labour and overheads. We therefore consider this to be a key audit matter.

How the matter was addressed in the audit

We have performed inventory price testing for a sample of material costs. As part of this testing, where the item sampled was sold post year end, we have tested whether this has been at an amount in excess of cost.

We have also assessed the calculation of labour and overhead absorption during the year and whether the value of labour and overhead costs included in inventory at 30 June 2020 is appropriate. Our work has included examining the operating capacity utilisation during the year.

We have further held discussions with operations staff and assessed the aging of inventory at 30 June 2020, to test whether the inventory provision recognised at 30 June 2020 is appropriate.

Key observations

Errors identified as a result of our work have been corrected by management.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	\$139,000 (2019: \$143,000)	\$69,000 (2019: \$114,000)
Basis for determining overall materiality	5% of adjusted results before tax	5% of adjusted results before tax
Rationale for benchmark applied	Profit measure used for the trading activities of the Group.	Profit measure used for the trading activities of the Group.
Performance materiality	\$104,000 (2019: \$107,000)	\$51,700 (2019: \$85,500)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of \$7,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of \$3,450 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 3 components, located in the United Kingdom, Australia and Canada.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Loss before tax
Full scope audit	2	100%	95%	93%
Specific audit procedures	1	0%	5%	7%
Total	3	100%	100%	100%

Of the above, a full scope audit for one component was undertaken by component auditors.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Paul Watts (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants

25 Farringdon Street

London

EC4A 4AB

30 September 2020

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 21 September 2020.

(a) Distribution of CDI securities

Structural Monitoring Systems Plc		Chess Depository Interest (Total)	
Range of Units As Of 21/09/2020		Composition: CDI	
Range	Total holders	Units	% Units
1 -1,000	556	306,501	0.26
1,001 - 5,000	857	2,419,875	2.02
5,001 - 10,000	410	3,220,600	2.69
10,001 - 100,000	809	26,047,863	21.79
100,000 Over	163	87,538,581	73.23
Rounding			0.01
Total	2,795		100

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.5200 per unit	962	403	153,698

(b) Substantial shareholders

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

Holder	Number of Shares
Drake Special Situations LLC	23,862,500

Structural Monitoring Systems Plc

Chess Depository Interest (Total)

Top Holders (Grouped) As Of 21/09/2020

Composition: CDI

Rank	Name	Units	% Units
1	HSBC CUSTODY NOMINEES (AUSTRALIA LIMITED	26,637,676	22.28
2	BNP PARIBAS NOMINEES PTY LTD <IB NOMS RETAILCLIENT DRP>	4,378,491	3.66
3	MR PAUL COZZI	4,266,736	3.57
4	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	3,450,353	2.89
5	MR ROBERT GREGORY LOOBY <FAMILY ACCOUNT>	2,500,00	2.09
6	CITICORP NOMINEES PTY LIMITED	2,131,569	1.78
7	MR STEPHEN CAMPBELL FORMAN	1,900,000	1.59
8	STRAIGHT LINES CONSULTANCY PTY LTD <STRAIGHT LINES CONSULT A/C>	1,620,000	1.36
9	JP MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,580,426	1.32
10	ROSHERVILLE PTY LTD <THE AYTON SUPER A/C>	1,400,000	1.17
11	ANODYNE ELECTRONICS HOLDING CORP	1,320,000	1.1
12	LANDMARK CONSTRUCTION PTY LTD <MEYER SHIRCORE UNIT S/F A/C>	1,066,679	0.89
13	STONY RISES PTY LTD <BOYLE FAMILY A/C>	952,750	0.8
14	MR ROSS MALCOM SPENCER + MR CLINTON LEON SPENCER <SPENCER FAMILY SUPERFUND A/C>	862,520	0.72
15	MR DAVID MICHAEL BROWN <DB ENTERPRISES MANAGEMENT FUND A/C>	850,000	0.71
16	MR TONY ATHAS + MRS ANGELA ATHAS <ATHAS FAMILY SUPER FUND A/C>	780,000	0.65
17	AVANTEOS INVESTMENTS LIMITED <4358776 DEBRA A/C>	780,000	0.65
18	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	690,486	0.58
19	KINETIC TRADE PTY LTD <THE SKINNER S/F A/C>	688,500	0.58
20	LOOBY HOLDINGS PTY LTD <K & F LOOBY SUPER FUND A/C>	650,000	0.54
Totals: Top 20 holders of CHESS DEPOSITORY INTEREST (Total)		58,505,186	48.94
Total Remaining Holders Balance		61,028,234	51.06

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

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

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

Nomination matters

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

Name:

Michael Reveley (Chair)

Sam Wright

Toby Chandler

There were no meetings of the nomination committee.

Audit matters

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

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

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

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

Remuneration matters

Remuneration Policy

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

Remuneration Committee Function

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

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 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.

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.

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).