



31 July 2006

The Listing Manager  
Australian Stock Exchange Limited  
Level 8, 2 The Esplanade  
PERTH WA 6000

Dear Sir

#### APPENDIX 4C – FOURTH QUARTER COMMITMENTS TEST ENTITY

Please find attached an Appendix 4C Quarterly Report for entities admitted on the basis of commitments for the quarter ended 30 June 2006.

The following significant events occurred during the quarter and subsequently:

- Planning activities with the South African airline SAFAIR have advanced for the installation of CVM sensor applications on two of their ten Hercules aircraft with installation scheduled during the next quarter. In association with this program US aircraft manufacturer Lockheed Martin has invited SMS to present a paper at its Hercules operator conference in October. Discussions are continuing with other Hercules operators regarding the use of CVM sensors to address fleet wide inspection requirements.
- Following the successful test results on CVM generated by the United States Government's Sandia National Laboratories and the FAA, a draft procedure has been prepared for inclusion of CVM in the Boeing NDT Standard Practices Manual. Following this result discussions are now in progress with Boeing for the development of CVM based alternative means of compliance for a number of existing aircraft inspections that have been identified by two US airlines that the Company is working with.
- The Joint Development Agreement program with Airbus is now well advanced. In the next stage of the JDA Airbus has scheduled the installation of CVM sensor systems on an Airbus aircraft being operated in their own flight test fleet and also on the aircraft of a major European airline.
- In addition to the JDA activity Airbus is now evaluating CVM for use on components manufactured in composite materials. The Company has demonstrated that CVM can monitor for structural damage in composite materials where current inspection techniques are difficult and costly. CVM can be incorporated into the composite

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**ARBN 106 307 322**

A public limited liability company incorporated under the laws of England and Wales.

materials at the manufacturing stage, this evaluation on new designs on representative aircraft components will be completed by the end of 2006.

- At the request of Embraer of Brazil, the worlds 4<sup>th</sup> largest commercial aircraft manufacturer, a costed proposal has been provided for the installation of CVM system to monitor a major full scale fatigue test program. In addition Embraer is looking to qualify an in-flight structural monitoring system around the CVM system for their aircraft. Embraer manufacture regional and business aircraft in the 50 to 120 seat range.
- The Company has been request to provide a CVM solution for a large European helicopter manufacturer. A costed proposal has been prepared for a program of work to qualify CVM sensor applications for a fleet installation commencing in 2007. The manufacturer has indicated that the program will commence during the next quarter.
- The next generation of CVM equipment, the PM200 periodic monitoring system, has been tested in its final production configuration and is scheduled to complete a series of independent compliance tests during the next quarter. Production for the PM200 is planned to commence during the last quarter of 2006.
- The Company has supplied the first modified and simplified CVM systems designed for large scale product quality controlled testing to PBR, a Melbourne based automotive brake manufacturer. PBR will use CVM for batch testing brake calipers for quality control. Quality control testing in manufacturing is a large business and the Company is now looking to expand in this market.
- SMS has received an expression of interest from General Motors in Brazil to use CVM in automotive tests using the CVM testing system that has been developed for PBR.
- The Company is receiving a high level of enquiries for use of the CVM system in an increasing number of different market sectors e.g. mining and ground transportation. There has also been an increase in the interest shown in SMS's CVM laboratory equipment by new customers in defence and corporate research centers, and in relation to aircraft structural health monitoring and full scale fatigue test applications. These industry inquiries are placing challenging demands on the Company's staff to develop new CVM solutions for the expanding customer base.

Shareholders will shortly receive an investor newsletter updating them on these and other recent developments.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Colin McDonald', with a stylized, cursive script.

Colin McDonald  
Company Secretary

## Appendix 4C

### Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

Structural Monitoring Systems plc

ABN

106 307 322

Quarter ended ("current quarter")

30 June 2006

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (..12.... months) \$A'000
1.1	Receipts from customers	114	838
1.2	Payments for		
	(a) staff costs	(833)	(2,837)
	(b) advertising and marketing	(125)	(535)
	(c) research and development	(122)	(306)
	(d) leased assets	-	-
	(e) other working capital	(218)	(1,519)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	33	160
1.5	Interest and other costs of finance paid	(1)	(11)
1.6	Income taxes paid		
1.7	Other (provide details if material) Grant income	757	1,037
	<b>Net operating cash flows</b>	(395)	(3,173)

	Current quarter \$A'000	Year to date (..12.... months) \$A'000
1.8 Net operating cash flows (carried forward)	<b>(395)</b>	<b>(3,173)</b>
1.9 <b>Cash flows related to investing activities</b> Payment for acquisition of: (a) businesses (item 5) (b) equity investments (c) intellectual property (d) physical non-current assets (e) other non-current assets	(13)	(113)
1.10 Proceeds from disposal of: (a) businesses (item 5) (b) equity investments (c) intellectual property (d) physical non-current assets (e) other non-current assets	3	3
1.11 Loans to other entities		
1.12 Loans repaid by other entities		
1.13 Other (provide details if material)		
	(10)	(110)
<b>Net investing cash flows</b>		
<b>1.14 Total operating and investing cash flows</b>	<b>(405)</b>	<b>(3,283)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	-	3,525
1.16 Proceeds from sale of forfeited shares		
1.17 Proceeds from borrowings		
1.18 Repayment of borrowings		
1.19 Dividends paid		
1.20 Other (provide details if material)	-	(79)
<b>Net financing cash flows</b>	-	3,446
<b>Net increase (decrease) in cash held</b>	<b>(405)</b>	<b>163</b>
1.21 Cash at beginning of quarter/year to date	3,160	2,593
1.22 Exchange rate adjustments to item 1.20	-	(1)
1.23 <b>Cash at end of quarter</b>	<b>2,755</b>	<b>2,755</b>

## Payments to directors of the entity and associates of the directors

## Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	127
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil
1.26	Explanation necessary for an understanding of the transactions	

## Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

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## Financing facilities available

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

	Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	
3.2	Credit standby arrangements	

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	2,755	3,160
4.2	Deposits at call		
4.3	Bank overdraft		
4.4	Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.23)		2,755	3,160

## Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	
5.2	Place of incorporation or registration	
5.3	Consideration for acquisition or disposal	
5.4	Total net assets	
5.5	Nature of business	

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act *(except to the extent that information is not required because of note 2)* or other standards acceptable to ASX.
- 2 This statement does /does not\* *(delete one)* give a true and fair view of the matters disclosed.

Sign here:



. Date: .....31 July 2006.....

(Director/Company secretary)

Print name: .....Colin McDonald.....

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.