ABN 34 093 877 331

Seeing Machines Limited

Half-year financial report

For the half-year ended 31 December 2016

Contents

Corporate Information

Directors	Terry Winters	Non-Executive Chairman	
	Ken Kroeger	Managing Director & CEO	
	Rudolph Burger	Non-Executive Director	
	James Allan Walker	Non-Executive Director	
	Les Carmichael	Non-Executive Director	
	Yong Kang (YK) Ng	Non-Executive Director	
	Peter Housden	Non-Executive Director	
	Tim Crane	Non-Executive Director	Appointed 1 February 2017

Company Secretary
Andrew Neilson

Registered office
Level 1, 11 Lonsdale Street
Braddon ACT 2612

Principal place of business
Level 1, 11 Lonsdale Street
Braddon ACT 2612
Phone: + (61) 2 6103 4700
Email: info@seeingmachines.com

Share Register

Australia
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne, Victoria, 3001, Australia
Phone: 1800 850 505 or +61 (0)3 9415 4000
www.computershare.com

United Kingdom
Computershare Investor Services PLC
The Pavilions, Bridgwater Rd
Bristol BS99 6ZY, United Kingdom
Phone: +44 (0)870 702 0000

Seeing Machines Limited shares are listed on the London Stock Exchange AIM market (code SEE).

Advisor
Finncap Ltd.
60 New Broad Street
London EC2M1JJ
United Kingdom

Solicitors

DLA Piper	Fieldfisher LLP
140 William Street	Riverbank house, 2 Swan Lane
Melbourne VIC 3000	London EC4R3TT
Australia	United Kingdom

Bankers
HSBC Commercial Bank
580 George Street
Sydney NSW 2000, Australia

Auditors
Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2600, Australia

Directors' report

Your directors submit their report for the half-year ended 31 December 2016.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Terry Winters	Non-Executive Chairman	
Ken Kroeger	Managing Director & CEO	
Rudolph Burger	Non-Executive Director	
James Allan Walker	Non-Executive Director	
Les Carmichael	Non-Executive Director	
Yong Kang (YK) Ng	Non-Executive Director	
Peter Housden	Non-Executive Director	
Tim Crane	Non-Executive Director	Appointed 1 February 2017

Financial Results

- Total value of contracts signed with new Guardian customers in the first half was A$6.9m – equal to the total value of contracts signed in FY15 and FY16 combined. However, this has not translated to sales revenue as quickly as expected due to a longer than anticipated time lag between Guardian customer orders being signed and the units being delivered and installed in customer fleets. The half year's customer wins reflect a significant volume of forward booked fleet contracts in place (with 36 to 60 month terms), securing long term predictable revenue with significant potential for additional growth.
- Sales revenue in the half year ended 31 December 2016 was A$3,620,748 (2016: A$29,320,940). Prior year revenue included direct sales of DSS mining products and services of A$5,765,019 and a one-off license fee of A$21,850,452 following a global product development, licensing and distribution agreement with Caterpillar Inc.
- Revenue from the Guardian division increased by 134% to A$1,637,875 (2016: A$699,968). See division highlights below.
- Revenue from the Automotive division was in line with expectations and the prior period and totalled A$992,934.
- Revenue from other sources includes the Aviation business which was mainly secured through funded R&D programs with Aviation OEMs, carriers and major industry integrators. Other income totalled A$1,162,838 (2016: A$2,363,323).
- The Company made a net loss before tax of A$14,138,699 for the period, compared with a net profit of A$11,174,353 for the period to 31 December 2015. Main reasons for drop in profitability include:
    - FY16 profit included one-off Caterpillar license revenue of A$21.85m
    - Increased investment in Research & Development (R&D) in 2017 (see Automotive division highlights below)
    - R&D refundable tax offset is included in the prior period but not this period – a similar value refund is anticipated in the second half of FY17 subject to a successful claim

Revenue for the half year for the Automotive, DSS, and Fleet product lines, the Caterpillar license fee, and Other Income compared to the same period last year is shown in the following table:

	Segment Revenue		Segment Profit	
FOR THE HALF YEAR ENDED 31 DECEMBER	**Dec-16 A$**	**Dec-15 A$**	**Dec-16 A$**	**Dec-15 A$**
Revenue				
Automotive	992,934	978,970	(2,672,072)	(2,812,458)
DSS mining/ Caterpillar license fees & royalties	789,939	27,642,002	(1,043,951)	26,126,013
Fleet /(Guardian)	1,637,875	699,968	(10,870,924)	(11,295,716)
Other revenue sources	200,000	(0)	(714,590)	(3,206,809)
Total for continuing operations	3,620,748	29,320,940	(15,301,537)	8,811,030
Total other income	1,162,838	2,363,323	1,162,838	2,363,323
Total Consolidated Revenue/(Loss)/Profit	4,783,586	31,684,263	(14,138,699)	11,174,353

Cash as at 31 December 2016 has decreased compared to 30 June 2016 due to the half year loss, offset in part by the monetisation of most of the amounts owed by Caterpillar for the one-off license fee. This cash balance does not include the proceeds from the recent capital raise totalling GBP16.4m (A$27m) which was received in January 2017. Refer to Note 19: Events after balance date. Trade and other receivables have decreased due to the monetisation of most of the amounts owed by Caterpillar for the one-off license fee. Increase in the intangibles balance is due to the capitalisation of development costs consistent with prior year.

Highlights Summary:

- With the transition from a direct-to-market mining business to a royalty arrangement with Caterpillar, the Company has refocussed its efforts toward the Automotive, Fleet, Aerospace and Rail markets and technologies.
- The Company is building a strong pipeline of Fleet sales across several regions, driven by several assessments and opportunities as outlined in our recent quarterly Fleet update (published in December 2016, and available at https://www.seeingmachines.com/investors/announcements/). We are also confident of increased activity and sales through Caterpillar across their broad target markets of construction, cement and quarry, forestry, and mining as this market recovers from an extended period of low ore prices.
- The Company has cemented itself as the market pioneer and leader of driver monitoring system (DMS) technology by securing a follow-on order from a major US automotive OEM, and has received strong levels of interest for developing programs with several major European automotive OEMs as they seek to adopt DMS for their ADAS and semi-autonomous capable vehicles.
- A pivotal achievement for Seeing Machines has been the development of its System in Package (SiP) - essentially a very cost-effective chipset that runs Seeing Machines' core algorithms, capable of powering all our applications.

Operational Highlights – Fleet/(Guardian)

- In December 2016, the Company announced a global distribution partnership with MiX Telematics (JSE: MIX, NYSE: MIXT), a leading global provider of fleet and mobile asset management solutions. Formalising this Agreement represents a significant step forward for the Guardian brand. Mix is a credible player in the fleet management space and have recognised the value that partnering with Guardian brings.
- During the half year two additional distributor agreements were signed in Asia Pacific - Kiatana (Thailand) and Autosense (NZ). Both distributors purchased inventory as part of these deals and have signed up multiple customers under assessment.
- The global pipeline continues to build and new assessments engaged. There are currently over 60 assessments in progress including significant and prominent global freight brands. Advancements in the US have been particularly pleasing with assessments now being converted to contracts.
- Total Lifetime Contracted Value as at 31 December 2016 is A$13.9m, of which A$6.9m new contract value was derived in the half year. As noted above, this contracted value has not translated to sales revenue as quickly as originally anticipated. Our sales revenue is recognised when a unit is shipped to a customer and monitoring revenue is first recognised once the unit is installed and monitoring services are being delivered. As these large customer deals have

been negotiated, customer preferences are emerging such that units are shipped over time to align with how quickly a customer is prepared to make its fleet available for installation of units. This creates a time lag between signing up a customer and being able to recognise sales revenue.

Operational Highlights – Mining

- Despite the current state of the resources sector and Caterpillar's (CAT) slower than anticipated growth of the business, royalties of A$789,000 represents material revenue for the Company.
- The gradual turnaround in the resources sector translates to strengthened sales pipeline for CAT and they anticipate signing up another new global mining customer during 2017.
- Delivery of the Seeing Machines engineered, next generation DSS Mining product remains on track for the second half of the financial year.
- Strengthened relationship with CAT as evidenced by:
  - their agreement to accelerate most of their payments to the Company with no discount in return for the delivery of certain agreed engineering services
  - the appointment of Mr Tim Crane, General Manager - Cat Services, Marketing & Digital Division to Seeing Machines' Board of Directors

Operational Highlights – Automotive (Fovio)

- The Company has decided to keep Fovio within the Group rather than spinning it out into a separately funded entity. This decision is in the best interests of shareholders given synergies with other parts of the Group. As a result, we proceeded with a capital raise which was concluded in January successfully raising GBP16.4m to fund Fovio within the Group.
- During the half-year, we have completed key hires of CEO and other senior management personnel and grown the automotive engineering and sales teams significantly. These resources were deployed on OEM program delivery, on-going Fovio chip automotive qualification, customer prototyping, and OEM/Tier 1 PC-DMS R&D programs.
- Fovio has successfully passed every major delivery milestone for its major OEM customer whose first semi-autonomous vehicle with integrated DMS is expected to be launched in 2017.
- Strong progress was made on the business development pipeline for other OEM opportunities as the automotive industry rapidly converges on the understanding of how critical DMS technology is for both mitigating drowsiness and distraction issues, and as a critical part of the technology stack for semi/fully-autonomous driving and next generation display systems. A sample of Fovio's technology engagements was on show at the CAR-ELE JAPAN show as well as CES 2017 which generated a high level of interest from industry leaders.
- The Company has made tremendous strides on the development of the Fovio vision processor and System in Chip (SiP) platform. The first processors are in automotive qualification. This platform will provide the Company with a market leading DMS performance platform, in a simple to integrate product for OEM/Tier1 customers which will be key to enabling a rapidly scalable business for Fovio as well as for use across most product segments such as Guardian and other new applications/markets being researched.

Operational Highlights – Aviation

- The first half has seen significant progress for Aviation with the following funded strategic and exploratory engagements:
  - Installation and data collection within a pilot and crew training facility with globally recognised carriers
  - Installation and data collection with a leading global OEM in an operational aircraft to capture and interpret pilot fatigue and alertness data
  - Initial engagement with a Tier 1 Avionics provider to understand pilot and crew fatigue status in a simulated environment
  - Joint study with an OEM and Air Navigation service provider to support more effective training and assessment in air traffic control
  - Global first data collection of helicopter pilot scan patterns and situational awareness in critical scenarios with a major player in helicopter operations.
- These engagements are the foundation of our developing product roadmap leveraging core capability for both aftermarket product and service and ultimately a production line product solution, with a key focus on:
  - Pilot and crew training and assessment
  - Pilot and crew operational monitoring
  - Air Traffic Control and Console Operator monitoring

Operational Highlights – Rail

- Rail – the Company is in final negotiation stage for a global agreement with Progress Rail. We expect an agreement to be in place during 2017.

Summary

The Board expects the Company's revenue sources to continue to evolve with the recent change of DSS business revenue to a Caterpillar royalty fee for DSS and the increase in our Fleet direct to market business. As our Fleet business matures we expect direct sales to be less dominant with growth over time in non-direct sales channels. Other revenue streams include engineering services in the automotive space in the short term but this will also move to an annuity stream from the sale of our technology into newly manufactured passenger vehicles.

The Directors remain committed to delivering significant growth in shareholder value and we look forward to reporting on our continued progress during this year.

Terry Winters
Chairman

16 March 2017

Ken Kroeger
Managing Director & CEO

16 March 2017

Interim Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016	Note	31 DEC 2016 A$	30 JUN 2016 A$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	11,603,910	16,948,300
Trade and other receivables	8	3,597,270	6,786,046
Inventories	9	6,901,966	8,420,350
Current financial assets		241,159	241,159
Deferred Taxation		-	85,581
Other current assets		1,439,056	663,615
TOTAL CURRENT ASSETS		23,783,361	33,145,051
NON-CURRENT ASSETS			
Property, plant and equipment	10	527,090	691,961
Intangible assets	11	5,130,872	4,404,268
Non-current financial assets		140,191	140,191
Trade and other receivables	8	1,797,236	6,284,468
TOTAL NON-CURRENT ASSETS		7,595,389	11,520,888
TOTAL ASSETS		31,378,750	44,665,939
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		1,142,538	1,801,771
Provisions		1,677,764	1,591,987
Deferred revenue		1,987,951	728,959
Income tax payable		-	85,581
TOTAL CURRENT LIABILITIES		4,808,253	4,208,298
NON-CURRENT LIABILITIES			
Provisions		44,689	33,324
TOTAL NON-CURRENT LIABILITIES		44,689	33,324
TOTAL LIABILITIES		4,852,942	4,241,622
NET ASSETS		26,525,808	40,424,317
EQUITY			
Contributed equity		70,806,624	70,592,134
Treasury shares		(1,191,078)	(1,226,938)
Accumulated losses		(43,875,933)	(29,737,234)
Other reserves		786,195	796,355
Equity attributable to the owners of the parent		26,525,808	40,424,317
Non-controlling interest		-	-
TOTAL EQUITY		26,525,808	40,424,317

The above interim consolidated statement of financial position should be read in conjunction with the accompanying notes.

Interim Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	Note	2016 A$	2015 A$
Continuing operations			
Sale of goods and license fees		1,669,995	27,558,018
Rendering of services		1,950,753	1,762,922
Revenue		3,620,748	29,320,940
Cost of sales		(4,093,322)	(4,238,008)
Gross (loss)/profit		(472,574)	25,082,932
Other income	5	1,162,838	2,363,323
Expenses			
Research and development expenses		(6,275,599)	(4,218,989)
Customer support and marketing expenses		(4,355,506)	(3,891,880)
Occupancy and facilities expenses		(1,094,867)	(891,894)
Corporate services expenses		(3,102,957)	(2,935,867)
Other expenses	6	(34)	(4,241,864)
(Loss) / profit before income tax from continuing operations		(14,138,699)	11,265,761
Income tax expense		-	(47,501)
(Loss) / profit from continuing operations after income tax		(14,138,699)	11,218,260
(Loss) from discontinued operations after income tax	4	-	(43,907)
(Loss) / profit for the period		(14,138,699)	11,174,353
Attributable to:			
Equity holders of parent		(14,138,699)	11,194,111
Non-controlling interests		-	(19,758)
		(14,138,699)	11,174,353
Other comprehensive (loss) / income to be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		(55,470)	(317,689)
Other comprehensive income net of tax		(55,470)	(317,689)
Total comprehensive (loss) / income		(14,194,169)	10,856,664
Total comprehensive income attributable to:			
Equity holders of parent		(14,194,169)	10,854,032
Non-controlling interests		-	2,632
Total comprehensive (loss) / income for the year		(14,194,169)	10,856,664
Earnings per share for (loss) / profit attributable to the ordinary equity holders of the company:			
· Basic earnings per share		(0.01316)	0.01215
· Diluted earnings per share		(0.01316)	0.01181

The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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Interim Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	**Contributed Equity** A$	**Treasury Shares** A$	**Accumulated Losses** A$	**Foreign Currency Translation Reserve** A$	**Employee Equity Benefits & Other Reserve** A$	**Total** A$	**Non-Controlling Interest** A$	**Total Equity** A$
At 1 July 2015	57,490,870	(1,301,823)	(27,997,987)	(544,438)	1,312,148	28,958,770	1,175,516	30,134,286
Profit/(loss) for the half-year			11,194,111	-	-	11,194,111	(19,758)	11,174,353
Other comprehensive income			-	(340,259)	-	(340,259)	22,390	(317,869)
Total comprehensive income	-		11,194,111	(340,259)	-	10,853,852	2,632	10,856,484
Transaction with owner in their capacity as owner								
Shares issued	297,759	-	-	-	-	297,759	-	297,759
Employee Share Loan Plan					176,577	176,577		176,577
At 31 December 2015	57,788,629	(1,301,823)	(16,803,876)	(884,697)	1,488,725	40,286,958	1,178,148	41,465,106
At 1 July 2016	70,592,134	(1,226,938)	(29,737,234)	(764,810)	1,561,165	40,424,317	-	40,424,317
(Loss) for the half-year	-	-	(14,138,699)	-	-	(14,138,699)	-	(14,138,699)
other comprehensive income	-	-	-	(55,470)	-	(55,470)	-	(55,470)
Total comprehensive income	-	-	(14,138,699)	(55,470)	-	(14,194,169)	-	(14,194,169)
Transaction with owner in their capacity as owner								
Shares issued	214,490	-	-	-	-	214,490	-	214,490
Treasury Shares	-	35,860	-	-	-	35,860	-	35,860
Employee Share Loan Plan	-	-		-	45,310	45,310	-	45,310
At 31 December 2016	70,806,624	(1,191,078)	(43,875,933)	(820,280)	1,606,475	26,525,808	-	26,525,808

The above interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim Consolidated Statement of Cash Flows

		Consolidated	
		2016	2015
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	**Note**	**A$**	**A$**
Operating activities			
Receipts from customers (inclusive of GST)		13,470,938	19,604,534
Payments to suppliers and employees (inclusive of GST)		(17,835,288)	(20,427,209)
Government Grants		103,125	-
Interest received		1,087	20,019
Net cash flows used in operating activities		(4,260,138)	(802,656)
Investing activities			
Purchase of plant and equipment		(141,724)	(295,706)
Payments for intangible assets		(889,105)	(951,325)
Net cash flows used in investing activities		(1,030,829)	(1,247,031)
Financing activities			
Proceeds from issue of shares		-	-
Cost of capital raising		-	-
Repayment of borrowings		-	-
Net cash flows from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(5,290,967)	(2,049,687)
Net foreign exchange differences		(53,423)	176,506
Cash and cash equivalents at 1 July		16,948,300	12,035,741
Cash and cash equivalents at 31 December	7	11,603,910	10,162,560

The above interim consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the interim consolidated financial statements

1. Corporate information, basis of preparation and accounting policies

Corporate information

The interim consolidated financial statements of Seeing Machines Limited and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 16 March 2017.

Seeing Machines Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the AIM market of the London Stock Exchange.

Basis of preparation and accounting policies

The interim consolidated financial statements are prepared in accordance with AASB 134 *Interim Financial Reporting* in order to fulfil the reporting requirements of Rule 18 of the London Stock Exchange's *AIM Rules for Companies* issued July 2016.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2016.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2016.

2. Going concern basis of accounting

The financial report has been prepared on the going concern basis. The Group has made a loss for the half year of A$14,138,699 (2015: profit of A$11,174,353). The Group has accumulated losses of A$43,875,933 (30 June 2016: A$29,737,235). The balance of cash and cash equivalents at 31 December 2016 is A$11,603,910 (30 June 2016: A$16,948,300). The ability of the Group to continue as a going concern is dependent on the Group's ability to meet its debts as and when they fall due.

The Group has prepared cash flow forecasts for the next twelve months that show that the Group will be able to meet its debts as and when they fall due. The directors are of the opinion that with the significant cash holdings following the successful capital raise after the reporting date, the going concern basis of accounting is justified (refer Note 19).

3. Operating segments

An operating segment is a component of the entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's operational decision makers to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available. Management also considers other factors in determining operating segments such as the level of segment information presented to the board of directors.

Operating segments that meet the qualitative criteria as prescribed by AASB 8 *Operating Segments* are reported separately. However, an operating segment that does not meet the qualitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Notes to the Interim Consolidated Financial Statements (continued)

3. Operating segments (continued)

Segment revenue based on operating segment

For management purposes, the Group is organised into key business units based on its products and services. Operating segments that are not primary drivers of the Group's revenue are aggregated into one operating segment. These include Aerospace, Consumer Electronics and Rail.

	Segment Revenue		Segment Profit	
FOR THE HALF YEAR ENDED 31 DECEMBER	Dec-16	Dec-15	Dec-16	Dec-15
Revenue				
Automobile	992,934	978,970	(2,672,072)	(2,812,458)
DSS mining/ Caterpillar license fees & royalties	789,939	27,642,002	(1,043,951)	26,126,013
Fleet (Guardian)	1,637,875	699,968	(10,870,924)	(11,295,716)
Other revenue sources	200,000	(0)	(714,590)	(3,206,809)
Total for continuing operations	3,620,748	29,320,940	(15,301,537)	8,811,030
Total other income	1,162,838	2,363,323	1,162,838	2,363,323
Total Consolidated Revenue/(Loss)/Profit	4,783,586	31,684,263	(14,138,699)	11,174,353

NB Segment Profit for 2015 includes profits from discontinued operations.

Notes to the Interim Consolidated Financial Statements (continued)

4. Discontinued operations

There were no discontinued operations in the half year to 31 December 2016.

In the prior half year ended 31 December 2015, the Board agreed to sell the shares in Seeing Machines Latin America SpA (SMLA), a majority owned subsidiary, part of the DSS mining segment, with 55% holding, to the non-controlling shareholders of the subsidiary. The sale was completed on 13 April 2016. At 31 December 2015, SMLA was classified as "held for sale". The difference between the carrying value of the net assets and the recoverable amount was recognised as a loss on re-measurement. The loss per share for 2015 from these discontinued operations was $0.0424

5. Other income

	Consolidated	
	Dec 2016	Dec 2015
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	A$	A$
Research and Development refundable tax offsets	-	2,264,120
Net gain on foreign exchange	391,358	-
Finance income	386,285	97,377
Government grants	375,000	-
Other income	15,195	1,826
	1,162,838	2,363,323

'Government grants' relates to a research partnership between The Australian Government, a local haulage operator and Seeing Machines. The Company will receive up to $2.1m in grants over the next 3 years.

6. Other expense

	Consolidated	
	Dec 2016	Dec 2015
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	A$	A$
Inventory write down	-	(4,178,271)
Net loss on foreign exchange	(34)	(61,032)
Withholding tax expenses on foreign dealings	-	(2,561)
	(34)	(4,241,864)

Notes to the Interim Consolidated Financial Statements (continued)

7. Current assets - cash and cash equivalents

	Consolidated	
	Dec 2016	June 2016
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	A$	A$
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	11,603,910	16,948,300
	11,603,910	16,948,300

8. Trade and other receivables

	Consolidated	
	Dec 2016	June 2016
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016	A$	A$
Current		
Trade receivables	3,812,893	7,533,190
Provision for doubtful debts	(89,037)	(71,427)
Deferred finance income	(126,586)	(867,277)
	3,597,270	6,594,486
Other receivables	-	191,560
	3,597,270	6,786,046
Non-Current		
Trade receivables	2,072,968	6,868,308
Deferred finance income	(275,733)	(583,840)
	1,797,235	6,284,468
	5,394,505	13,070,514

9. Inventories

	Consolidated	
	Dec 2016	June 2016
FOR THE HALF- YEAR ENDED 31 DECEMBER 2016	A$	A$
Finished goods	6,901,966	8,297,373
Work in progress	-	122,977
Total	6,901,966	8,420,350

10. Property, plant and equipment

During the six months ended 31 December 2016, the Group acquired assets with a cost of A$141,724 (December 2015: A$97,904). The majority of these purchases are related to office furniture and IT equipment bought for new staff. No disposals occurred in this period.

Notes to the Interim Consolidated Financial Statements (continued)

11. Intangibles

During the six months ended 31 December 2016, the Group spent A$889,105 on intangibles (December 2015: A$951,325). The majority of these purchases are related to the development costs of OEM Technology which have been capitalised along with new patent applications and renewal of existing patents. No patents were written-off during this period.

12. Financial Instruments

The financial instruments in this period relate to trade receivables that have been covered in note 8. The fair values of these assets are approximate to their carrying values.

13. Dividends paid

No dividends or distributions have been made to members during the half year reporting period and no dividends or distributions have been recommended or declared by the directors in respect of the half year reporting period.

14. Shares issued during the half year

In October 2016, as part of the Company's remuneration review, the Board approved the issue of 1,553,697 shares as a short term incentive to the non-executive staff members who qualified for this offer. The total value of these shares is A$191,411. In addition to this, the Board approved the issue of 564,613 shares to the nine senior management members as a short term incentive. The total value of these shares is A$23,079.

15. Leasing commitments

Operating lease commitments – Group as lessee
The Group has two operating leases on properties in Australia and one in the United States.

Future minimum rental payments under non-cancellable operating leases as at 31 December are as follows:

	Consolidated	
	Dec 2016	**Dec 2015**
	A$	**A$**
Within one year	377,243	372,223
After one year but not more than five years	683,385	-
Total	**1,060,628**	**372,223**

Finance leases and hire purchase commitments – Group as lessee
The Group has no finance leases or hire purchase commitments for items of property, plant and equipment.

Notes to the Interim Consolidated Financial Statements (continued)

16. Related party disclosure

(a) *Transactions with related parties*

In the six months to December 2016, there have not been any transactions with related parties.

(b) *Director-related transactions*

(i) Shareholdings of Directors

Shares in Seeing Machines Limited

31 December 2016	Balance 1 July 16	Granted as remuneration	Acquired or sold for cash	Net change other	Balance 31 Dec 16
Directors					
T Winters	1,892,476	274,438	-	-	2,166,914
K Kroeger[1,2]	2,336,643	-	-	-	2,336,643
R Burger	130,155	137,219	-	-	267,374
Jim Walker	156,186	164,663	-	-	320,849
Peter Housden	-	82,557	-	-	82,557
Les Carmichael	-	90,978	-	-	90,978
Yong Kang NG	-	72,181	-	-	72,181
Total	**4,515,460**	**822,036**	**-**	**-**	5,337,496

1. K Kroeger holds shares through Cook Kroeger Superannuation Fund.
2. K Kroeger has been issued with 1,974,038 performance rights, not shares, in the past 6 months

(ii) Other Director-related transactions

All transactions with director-related entities were made under normal commercial terms and conditions.

17. Key management personnel

(a) *Details of Key Management Personnel*

(i) Directors

Terry Winters	Chairman (non-executive)
Ken Kroeger	Managing Director and CEO
Rudolph Burger	Director (non-executive)
James A Walker	Director (non-executive)
Les Carmichael	Director (non-executive)
Peter Housden	Director (non-executive)
Yong Kang NG	Director (non-executive)

(ii) Executives

Mike McAuliffe	Senior Vice President Fovio
Paul Angelatos	Chief Operating Officer
Mike Lenné	Senior Vice President Human Factors
Nicole Makin	Senior Vice President People and Culture
Patrick Nolan	Senior Vice President Aerospace
James Palmer	Chief Financial Officer

Notes to the Interim Consolidated Financial Statements (continued)

17. Key management personnel (continued)

(b) *Compensation for Key Management Personnel*

	Six Months to December 2016 A$	Six Months to December 2015 A$
Short-term employee benefits	2,149,418	1,296,377
Share based payments	129,221	142,817
Total	2,278,639	1,439,194

18. Share based payments

(a) *Recognised share based payment expenses*

	Dec 2016 A$	Dec 2015 A$
Expense arising from share-based payment transactions under Employee share Loan	33,912	80,052
Expense arising from the performance rights long term incentive	11,401	176,577
Expense arising from the shares issued to the employees	191,411	220,495
Add directors shares	23,079	-
Total	259,803	477,124

(b) Employee share loan plan (ESLP)

In recent years the Company has used a trust and loan structure as a long term incentive scheme, whereby shares are issued up-front but held by a trustee, and the shares only vest for the benefit of executives if certain conditions are met (in which case the Company provided a loan to enable the executives to purchase their allocated shares). In July 2015 the Australian Government changed the applicable taxation laws governing employee equity plans, with the general effect that employees may now defer tax on equity offers in more circumstances, including when they receive performance rights or options. As a result of these changes, the Board has now adopted performance rights as a long term incentive tool, instead of using a more complex trust and loan structure.

(c) Employee share option scheme (ESOS)

From 1 July 2015, the board adopted a more simplified structure whereby the executives are offered long term performance rights. Under this structure, the executives are only able to exercise the rights, and have New Ordinary Shares issued to them, if the vesting conditions are met after three years from the end of the relevant financial year. A new set of options was granted on 27 October 2016.

Following is the list of the inputs used to value these options for the half year ended 31 December 2016, the period in which the options were issued:

Date granted	27 October 2016
Dividend Yield (%)	0.0
Expected volatility (%)	80.0
Risk-free interest rate (%)	5%
Expected life (years)	3 years
Weighted average share price (pence)	4.5
Model Used	Binomial

The volatility was determined on the bases of the historical movement of the share price of the company.

Notes to the Interim Consolidated Financial Statements (continued)

18. Share based payments (continued)

(c) Employee share option scheme (ESOS) (continued)

Relative TSP performance outcome	Percentage of award that will vest
Below the 90th percentile	0%
At the 90th percentile	50%
At the 95th percentile	75%
At the 100th percentile	100%

The vesting conditions of the shares are linked to the achievement of the Target Share Price (TSP) as agreed in the share offer document. The shares will vest based on the TSP achieved at the end of the 3 years.

i. Movements during the year

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year:

	December 2016 No.	December 2016 WAEP (cents)	December 2015 No.	December 2015 WAEP (cents)
Outstanding at the beginning of the year	26,569,811	6.66	20,604,252	5.64
Granted during the year	7,286,486	7.21	5,965,559	10.20
Forfeited during the year			-	-
Exercised during the year			-	-
Expired during the year			-	-
Outstanding at 31 December	33,856,297	6.78	26,569,811	6.66
Exercisable at 31 December	0	0		

Weighted average fair value of the options granted during the half year was £0.0267 (A$0.0428) per share.

19. Events after balance date

Following successful discussions with potential investors during late 2016, on 12 January 2017 the company held a General meeting at which the shareholders approved the issue of 375,000,000 Ordinary shares (comprising Placement shares and Subscription shares) at an issue price of 4 pence. This resulted in proceeds from the issue of shares of GBP15m during January 2017. An offer was also made to existing eligible shareholders which closed on 19 January 2017 raising a further GBP1.4m during January 2017.

Mr Timothy Macmillan Crane joined the Board as a non-executive Director, with effect from 1 February 2017. Mr Crane, aged 42, is General Manager - Cat Services, Marketing & Digital Division. Mr Crane joins the Board to further strengthen the relationship between Seeing Machines and Caterpillar Inc. and to help drive safety related revenues for both companies under the existing global agreement for product development, licensing and distribution.

Directors' Declaration

In accordance with a resolution of the directors of Seeing Machines Limited, I state that:

In the opinion of the directors:

(a) The financial statements and notes of Seeing Machines Limited present fairly, in all material aspects, the financial position of the consolidated entity as at 31 December 2016 and its financial performance and cash flows for the half-year ended on that date, in accordance with the Company's accounting policies.

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Terry Winters
Chairman

Canberra, 16 March 2017

EY
Building a better working world

Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2600 Australia
GPO Box 281 Canberra ACT 2601

Tel: +61 2 6267 3888
Fax: +61 2 6246 1500
ey.com/au

To the members of Seeing Machines Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying 31 December 2016 half-year financial report of Seeing Machines Limited, which comprises the interim consolidated statement of financial position as at 31 December 2016, and the interim condensed statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the 31 December 2016 ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the accompanying financial report is not presented fairly, in all material respects, in accordance with AASB 134 *Interim Financial Reporting.* As the auditor of Seeing Machines Limited, ASRE 2410 also requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of Seeing Machines Limited does not present fairly, in all material respects, the company's financial position as at 31 December 2016 and its financial performance and its cash flows for the half-year ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.

Ernst & Young

Ernst & Young
Canberra
16 March 2017

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