ABN 34 093 877 331

# Seeing Machines Limited

# Half-year financial report

# For the half-year ended 31 December 2017

## Contents

# Corporate Information

| | | |
|---|---|---|
| **Directors** | Ken Kroeger | Executive Chairman & Interim CEO |
| | James Allan Walker | Deputy Chairman |
| | Rudolph Burger | Non-Executive Director |
| | Les Carmichael | Non-Executive Director |
| | Yong Kang (YK) Ng | Non-Executive Director |
| | Tim Crane | Non-Executive Director |

**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
452 Johnston Street
Abbotsford VIC 3067, Australia
Phone: 1800 850 505 or +61 (0)3 9415 4000
www.computershare.com

**United Kingdom**
Computershare Investor Services PLC
The Pavilions, Bridgwater Road
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).

**Solicitors**

| | |
|---|---|
| DLA Piper | Fieldfisher LLP |
| Level 21, 140 William Street | Riverbank house, 2 Swan Lane |
| Melbourne VIC 3000 | London EC4R 3TT |
| 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 2017.

### *Directors*

The names of Seeing Machines Limited's (the Company) 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.

| | |
|---|---|
| Ken Kroeger | Chairman and Interim CEO |
| James Allan Walker | Deputy Chairman |
| Mike McAuliffe | CEO & Executive Director (resigned 21 February 2018) |
| Rudolph Burger | Non-Executive Director |
| Les Carmichael | Non-Executive Director |
| Yong Kang (YK) Ng | Non-Executive Director |
| Tim Crane | Non-Executive Director |
| Peter Housden | Non-Executive Director (resigned 31 July 2017) |

### *Financial Results*

- Revenues for the half-year ended 31 December 2017 of A$14.6m – a record for the Company[1].
- The total revenue from operations was A$14,646,538 – compared to A$3,995,748 for the same period last year – an increase of 267%.
- Revenue from the Automotive segment of A$6,882,223 (2017: A$992,934) an almost seven-fold increase compared to the same period last year. This was a record half year revenue for the Automotive segment mainly as a result of milestone payments arising from the program win with a premium German Automotive OEM in conjunction with a major Tier 1 automotive partner, to provide its FOVIO Driver Monitoring System (DMS) technology into new automobile models.
- Revenue from the Fleet segment of A$5,868,572 (2017: A$1,637,875) – a 258% increase on the same period last year. Total value of contracts signed with Guardian customers in the first half was A$21m. This takes Fleet total contract value ("TCV") signed with customers, but not yet delivered nor recognised as revenue from A$21.5 million at 30 June 2017 to A$36.4 million at 31 December 2017. It is expected that this value will be brought to revenue as product and services are delivered approximately one third in H2FY18, and then progressively over FY19 and FY20. The FY18 full year result is expected to be weighted to H2 due to Generation 2.0 of Guardian hardware being released.
- Revenue from the Off-Road segment totalled A$1,324,732 (2017: A$789,939) up 68% on the same period last year. This revenue mainly comprises royalties from Caterpillar on sales of DSS mining products and services.
- Revenue from the Aviation business was mainly secured through funded R&D programs with Aviation OEMs, carriers and major industry integrators.
- Revenue from the Scientific Advances segment represents mainly revenue from customers for paid research.
- Other income totalled A$328,469 (2017: A$787,838) and consisted of interest income and the R&D tax incentive grant.
- The Company made a net loss before tax of A$16,683,056 for the period, compared with a net loss of A$14,138,699 for the period to 31 December 2016. Main reasons for the increase in loss include:
    - Increased investment in Research & Development (R&D) in FY2018 (see Automotive division highlights below)
    - Increased share based payment arising from issues of performance rights and options to key executives
    - Increased amortisation of software: following the completion of the Takata solution on 31 March 2017, the related development expenditure was capitalised to software and amortisation commenced.

[1] Excluding H1FY16 when the one-off license fee from Caterpillar occurred

Revenue for the half year for the Automotive, Off Road, Fleet, Aviation and Scientific Advances divisions, 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-17 A$ | Dec-16 A$ | Dec-17 A$ | Dec-16 A$ |
| **Revenue** | | | | |
| Automotive | 6,882,223 | 992,934 | (2,293,977) | (2,672,072) |
| Off-Road | 1,324,732 | 789,939 | 531,784 | (1,043,951) |
| Fleet | 5,868,572 | 1,637,875 | (14,637,450) | (10,870,924) |
| Aviation | 121,011 | 200,000 | (614,689) | (714,590) |
| Scientific Advances | 450,000 | 375,000 | (25,598) | 375,000 |
| Total | 14,646,538 | 3,995,748 | (17,039,930) | (14,926,537) |
| Total other income | 328,470 | 787,838 | 328,470 | 787,838 |
| Total consolidated revenue - (Loss)/Profit | 14,975,008 | 4,783,586 | (16,711,460) | (14,138,699) |

Cash as at 31 December 2017 has decreased compared to 30 June 2017 due to the half year loss and investments in property, plant and equipment and intangibles offset in part by proceeds from share subscription monies and proceeds from borrowing. This cash balance does not include the majority of the proceeds from the recent capital raise totalling £35m (A$62m) which was received in January 2018. Refer to Note 18: Events after balance date. Trade and other receivables have increased due to increased sales activity. Inventories have increased due to Fleet hardware stock purchases to meet customer demand and shipped in Q3. Liabilities have increased mainly due to the company entering into finance arrangements to finance inventory purchases, IT asset purchases and to securitise some Fleet customer debt.

***Highlights Summary:***

- Automotive production debut of Seeing Machines' FOVIO driver monitoring technology in General Motors' 2018 Cadillac CT6.
- Significant program award from a premium German Automotive OEM in conjunction with a major Tier 1 Automotive partner, to provide the Company's FOVIO Driver Monitoring System (DMS) technology into new automobile models.
- Formal collaboration with Autoliv, a leader in Automotive Safety Systems, to deliver next generation DMS for autonomous vehicles.
- Euro NCAP proposed DMS as a primary safety system from 2020 in their "Road Map 2025" generating a significant tailwind of opportunities for Seeing Machines, complemented by US National Transportation Safety Board strong recommendation of DMS for Semi-Autonomous Vehicles following Tesla crash investigation.
- Continued strong automotive demand for paid leases of PC-DMS (technology evaluation/demonstration systems) including new Tier 1 and OEM customers, as well as customer delivery of first FOVIO FDM-EVK embedded evaluation and development kits (Beta phase) based on FOVIO chip technology.
- Expanding footprint of Guardian Distributors performing strongly as evidenced by Technologica wins in Russia and Middle East, as well as ongoing solid performance in Asia Pacific.
- Telematics partner engagement continues to develop with first joint deal signed in Q2 with Chevron company.
- Robust sales pipeline in Fleet business which will be further bolstered by Generation 2 product launch, which is imminent.
- Announcement of Aviation collaboration with Emirates Airlines, following joint presentation at Global Aviation conference highlighting current and potential future engagements supporting training and assessment of pilots and crew in their Dubai training facilities, work which is intended to be leveraged across the aviation industry.
- Signed a new extended Partnership Agreement with Progress Rail Services Corporation (Progress Rail) which will see DSS tailored for rail applications and sold by Progress Rail exclusively around the world.
- Following successful discussions with potential investors during late 2017, on 3 January 2018 the company held a General meeting at which the shareholders approved the issue of 700,000,000 Ordinary shares (comprising Placement shares and Subscription shares) at an issue price of 5 pence. This resulted in proceeds from the issue of shares of £35m during January 2018. An offer was also made to existing eligible shareholders which closed on 12 January 2018 raising a further £2.4m during January 2018.

**Operational Highlights – Automotive**

- Significant program award from a premium German Automotive OEM in conjunction with a major Tier 1 Automotive partner, to provide Seeing Machines' FOVIO Driver Monitoring System (DMS) technology into new automobile models. The awarded models are scheduled for mass production launch starting in 2020, and represent a Medium value program (from A$10M to A$25M revenue) based on initial included models and lifetime volume projections, with potential to become a Large value program in time.
- Established collaboration with Autoliv, a leader in Automotive Safety Systems, to deliver next generation Driver Monitoring Systems (DMS) for autonomous vehicles. The Company is immensely proud of this collaboration given Autoliv's expertise, resources and reach and believe this endorsement is evidence that Seeing Machines has world-leading DMS available for the automotive industry globally.
- Automotive production debut of Seeing Machines' FOVIO driver monitoring technology in the General Motors (GM) 2018 Cadillac CT6. The FOVIO based driver monitoring system (DMS) forms an integral part of the GM industry leading Super Cruise hands-free driving system for the highway, ensuring safe and confident vehicle operation.
- Strong customer demand for our newly released 4th generation PC-DMS (DMS technology evaluation) platform which now includes a fully automotive grade reference camera design. The Company has seen increased orders from additional Tier 1 and OEM customers, further expanding our base so that most automotive OEMs globally are current Seeing Machines customers.
- First (Beta phase) customer shipments of the Seeing Machines' FOVIO Driver Monitor Evaluation Kit (FDM-EVK) which are small fully embedded automotive grade electronic modules based on the Company's FOVIO chip technology. This allows customers to easily scale application development and validation of the Seeing Machines DMS technology across larger development teams from engineering labs to vehicle test fleets.
- Euro NCAP proposed DMS as a primary safety system from 2020 in their "Road Map 2025" and the NTSB now recommends DMS for Semi-Autonomous Vehicles. The NTSB recommendation stemmed from the investigation of a fatal Level-2 automated driving accident and is an indicator of the importance of monitoring driver state to ensure sufficient driver engagement is maintained for safe semi-autonomous driving systems. The Euro NCAP Road Map 2025 proposes DMS as a primary safety feature in safety rating scores starting in 2020, targeting a reduction of accidents related to driver distraction and drowsiness. We view this as a compelling indicator for DMS adoption and expect significant tailwind opportunities as DMS technology is now being accepted as an important stand-alone driver safety feature, as well as a critical technology, for safe semi-autonomous vehicles.

**Operational Highlights – Fleet**

- Total value of contracts signed with Guardian customers in the first half was A$21m. This takes Fleet total contract value ("TCV") signed with customers, but not yet delivered nor recognised as revenue from A$21.5 million at 30 June 2017 to A$36.4 million at 31 December 2017. It is expected that this value will be brought to revenue as product and services are delivered approximately one third in H2FY18, and then progressively over the life of the contracts which typically range from 3 to 5 years. The FY18 full year result is expected to be weighted to H2 due to Generation 2.0 of Guardian hardware being released.
- Geotab, a worldwide leader in Fleet telematics solutions, added the Company's Fleet Guardian Solution, to the Geotab Marketplace. Seeing Machines' Guardian is a recent Add-In application in the Geotab Marketplace, which serves more than 14,000 Geotab customers. Geotab has 1,000,000 fleet connections to date and Seeing Machines has collaborated with Geotab to become a Geotab Marketplace partner.
- Dubai based Technologica Information Technology LLC ("Technologica") won two major Guardian deals in 2017 in the Middle East and Russia, with the combined opportunity expected by Seeing Machines to total 5,620 Guardian units. The Guardian units are expected to be ordered from Seeing Machines and installed over a one to two-year timeframe and one of these would represent the Company's largest single Fleet customer deal to date.
- Guardian sales pipeline continues to grow with A$250m in qualified opportunities now being pursued.
- Guardian 2.0 (Generation 2 hardware) to be released in H2FY18 representing lower cost base, improved performance as well as being a suitable platform on which to deliver the Company's Driver Monitoring Engine technology in future generation software releases.

**Operational Highlights – Mining**

- Caterpillar Inc., (CAT) launched the first CAT branded version of the Seeing Machines Driver Safety System (DSS) Off-Road (Mining) product. Delays to the launch slowed sales for CAT during the H1FY18 period. Despite this, the Off-Road

business segment delivered close to plan.
- Increased inventory availability for CAT during the H2FY18 coupled with renewed strength in the mining sector should see Off-Road deliver on full year expectations.

**Operational Highlights – Rail**
- Seeing Machines signed a new extended Partnership Agreement with Progress Rail Services Corporation (Progress Rail). Progress Rail, a Caterpillar company, is one of the largest integrated and diversified suppliers of railroad and transit system products and services worldwide. Since its acquisition of Electro-Motive Diesel (EMD), Progress Rail is the world's largest builder of diesel-electric locomotives for all commercial railroad applications including freight, intercity passenger, commuter, switching, industrial and mining.
- The Agreement provides exclusive worldwide license rights to Progress Rail, for core rail applications under specific conditions, on a royalty basis incorporating minimum royalty revenue growth commitments.
- Progress Rail are building a pipeline of opportunities with significant rail operators in the heavy freight market across North America, UK/Europe and Asia Pacific.
- Seeing Machines is building on strong momentum in the UK Tram Market (light rail) with Croydon Trams having recently been the first UK Tram operation to roll out Guardian across its network.

**Operational Highlights – Aviation**
- Seeing Machines Aviation collaborated with Emirates Airlines using the Company's advanced gaze tracking technology to better understand how pilots interact and monitor instruments during certain identified real-time procedures / scenarios that could pose potential safety risks. The findings from the initial study were presented at the 70th annual International Air Safety Summit (IASS) in Dublin, and have led to additional collaborative data collection in the Emirates A380 Full Flight Simulator with 26 line pilots flying multiple critical scenarios. These activities have paved a clear pathway to product installation of the Seeing Machines technology into Emirates pilot / crew training facilities.
- Significant interest being generated from multiple carriers and operators across US and Asia Pacific has led to a Simulator OEM evaluation of Seeing Machines technology and a joint pathway to product installation for our early adopter clients and partners.

**Operational Highlights – Scientific Advances**

Advanced Safe Truck Concept
- Major aftermarket concept development program well underway, funded primarily through the Australian Government Cooperative Research Centre Projects program. Total project value A$6.5m, with A$2.25M payable to Seeing Machines over 3 years).
- First stage of the advanced concept development, in-depth driver state data collection, commenced at the Monash University Accident Research Centre simulator laboratory.
- Volvo Trucks Australia joined as program partner, alongside existing partners Ron Finemore Transport and Monash University Accident Research Centre. OEM input is a significant advantage in fine tuning the driver state sensing future concept.
- 2018 will see Seeing Machines conduct a world-first naturalistic truck study which provides the Company with unparalleled opportunities to develop market-leading solutions based on significant data collection using driver monitoring technology.

CAN Drive (Canberra's Automated Vehicle Trial aims to:
- Accelerate the development of Company DMS for semi-autonomous OEM applications.
- Provide opportunities for the local community in the Australian Capital Territory (ACT) to experience Autonomous Vehicles first hand and to stimulate their uptake.
- Inform government policy in the areas of autonomous vehicles, transport planning and policy and road safety policy.
- The program will enable Seeing Machines to acquire a Tesla vehicle, equip it with the Company's DMS technology to study how drivers interact with these technologies, thus providing valuable data to inform our future technology.
- A contract was signed with the local ACT Government in December 2017 to the value of $1.2m. Planning for program commencement and launch with ACT Ministers is taking place and planned for 2018.

University of Leeds
- Collaborative R&D engagement with the Institute of Transport Studies at the University of Leeds to examine how driver attention and behaviour changes when operating a Level 2/3 vehicle. This is very complementary to the Seeing Machines CAN Drive program.

***Summary***

- Fleet business performed strongly with a record H1FY18 and showing enormous potential. A A$250m sales pipeline, significant product cost reductions when Generation 2 product launches in H2FY18, and new distribution channels set the foundations for rapid growth in revenue and most importantly high margin recurring revenues from monitoring.
- Automotive business gaining momentum in H1FY18 based on:
  - Production model design win with a premium German OEM and Tier 1.
  - Strong demand for the Company's technology evaluation and development platforms over a widening customer base.
  - Shipment of the first (beta) development systems (FDM-EVK) featuring Seeing Machines' FOVIO Chip technology.
  - Collaboration established with Autoliv who have world class expertise, resources, and reach in the automotive safety market.
  - Further evidence of future market acceptance/demand based on Euro-NCAP and NTSB announcements targeting improved driver safety and safe semi-autonomous 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.

***Events after Balance Date***

Following successful discussions with potential investors during late 2017, on 3 January 2018 the company held a General meeting at which the shareholders approved the issue of 700,000,000 Ordinary shares (comprising Placement shares and Subscription shares) at an issue price of 5 pence. This resulted in proceeds from the issue of shares of £35m during January 2018. An offer was also made to existing eligible shareholders which closed on 12 January 2018 raising a further £2.4m during January 2018.

On 29 January 2018, Mike McAuliffe, CEO and Director left the Company. Executive Chairman Ken Kroeger was appointed as interim CEO by the Board until the recruitment of a new CEO is finalised.

Signed in accordance with a resolution of the Board:

Ken Kroeger
Chairman & Interim CEO
12 March 2018

# Interim Consolidated Statement of Financial Position

| AS AT 31 DECEMBER 2017 | Note | 31 DEC 2017 A$ | 30 JUN 2017 A$ |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 5 | 17,449,776 | 21,438,025 |
| Trade and other receivables | 6 | 8,462,515 | 7,581,367 |
| Inventories | 7 | 2,213,972 | 702,212 |
| Current financial assets | | 576,706 | 574,793 |
| R&D refundable tax offset receivable | | - | 4,700,825 |
| Other current assets | | 4,427,480 | 3,565,033 |
| **TOTAL CURRENT ASSETS** | | 33,130,449 | 38,562,255 |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 8 | 1,106,141 | 959,040 |
| Intangible assets | 9 | 4,521,663 | 5,218,589 |
| Non-current financial assets | | 140,191 | 140,191 |
| Trade and other receivables | 6 | 1,890,830 | 1,828,627 |
| **TOTAL NON-CURRENT ASSETS** | | 7,658,825 | 8,146,447 |
| **TOTAL ASSETS** | | 40,789,274 | 46,708,702 |
| | | | |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | 5,749,456 | 5,611,096 |
| Provisions | | 2,116,719 | 2,012,383 |
| Deferred revenue | | 921,900 | 1,467,967 |
| Current financial liabilities | 10 | 2,289,940 | - |
| **TOTAL CURRENT LIABILITIES** | | 11,078,015 | 9,091,446 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | | 24,536 | 44,372 |
| Non-current financial liabilities | 10 | 774,933 | - |
| **TOTAL NON-CURRENT LIABILITIES** | | 799,469 | 44,372 |
| **TOTAL LIABILITIES** | | 11,877,484 | 9,135,818 |
| | | | |
| **NET ASSETS** | | 28,911,790 | 37,572,884 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | | 103,682,993 | 96,482,665 |
| Treasury shares | | (1,191,078) | (1,191,078) |
| Accumulated losses | | (76,137,580) | (59,426,120) |
| Other reserves | | 2,557,455 | 1,707,417 |
| Equity attributable to the owners of the parent | | 28,911,790 | 37,572,884 |
| **TOTAL EQUITY** | | 28,911,790 | 37,572,884 |

**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 2017 | Note | 2017 A$ | 2016 A$ |
|---|---|---|---|
| Sale of goods and license fees | | 6,767,437 | 1,669,995 |
| Rendering of services | | 7,429,101 | 1,950,753 |
| Research revenue | | 450,000 | 375,000 |
| **Revenue** | | 14,646,538 | 3,995,748 |
| Cost of sales | | (8,049,101) | (4,093,322) |
| **Gross profit/(loss)** | | 6,597,437 | (97,574) |
| Net (loss)/gain in foreign exchange | | (604,262) | 391,324 |
| Finance income | | 206,976 | 386,285 |
| Other Income | 4 | 121,493 | 10,195 |
| **Expenses** | | | |
| Research and development expenses | | (10,528,066) | (6,275,599) |
| Customer support and marketing expenses | | (5,500,839) | (4,355,506) |
| Occupancy and facilities expenses | | (3,493,569) | (1,094,867) |
| Corporate services expenses | | (3,440,535) | (3,102,957) |
| Finance Costs | | (41,691) | - |
| **Loss before income tax** | | (16,683,056) | (14,138,699) |
| Income tax expense | | (28,404) | - |
| Loss after income tax | | (16,711,460) | (14,138,699) |
| **Loss for the period** | | (16,711,460) | (14,138,699) |
| **Attributable to:** | | | |
| Equity holders of parent | | (16,711,460) | (14,138,699) |
| Non-controlling interests | | - | - |
| | | (16,711,460) | (14,138,699) |
| **Other comprehensive income/(loss) to be reclassified subsequently to profit and loss** | | | |
| Exchange differences on translation of foreign operations | | 265,372 | (55,470) |
| **Other comprehensive income/(loss) net of tax** | | 265,372 | (55,470) |
| **Total comprehensive loss** | | (16,446,088) | (14,194,169) |
| **Total comprehensive loss attributable to:** | | | |
| Equity holders of parent | | (16,446,088) | (14,194,169) |
| Non-controlling interests | | | - |
| **Total comprehensive loss for the year** | | (16,446,088) | (14,194,169) |
| Earnings per share for loss attributable to the ordinary equity holders of the company: | | | |
| · Basic earnings per share | | (0.01320) | (0.01316) |
| · Diluted earnings per share | | (0.01320) | (0.01316) |

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

# Interim Consolidated Statement of Changes in Equity

| FOR THE HALF-YEAR ENDED 31 DECEMBER 2017 | Contributed Equity A$ | Treasury Shares A$ | Accumulated Losses A$ | Foreign Currency Translation Reserve A$ | Employee Equity Benefits & Other Reserve A$ | Total Equity A$ |
|---|---|---|---|---|---|---|
| **At 1 July 2016** | 70,592,134 | (1,226,938) | (29,737,234) | (764,810) | 1,561,165 | 40,424,317 |
| **Loss for the half-year** | - | - | (14,138,699) | - | - | (14,138,699) |
| **Other comprehensive income** | - | - | - | (55,470) | - | (55,470) |
| **Total comprehensive income** | - | - | (14,138,699) | (55,470) | - | (14,194,169) |
| **Transaction with owners in their capacity as owners** | | | | | | |
| **Shares issued** | 214,490 | - | - | - | - | 214,490 |
| **Treasury Shares** | - | 35,860 | - | - | - | 35,860 |
| **Employee Share Option Scheme** | - | - | - | - | 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 |
| **At 1 July 2017** | 96,482,665 | (1,191,078) | (59,426,120) | (765,054) | 2,472,471 | 37,572,884 |
| **(Loss) for the half-year** | - | - | (16,711,460) | - | - | (16,711,460) |
| **other comprehensive income** | - | - | - | 265,372 | - | 265,372 |
| **Total comprehensive income** | - | - | (16,711,460) | 265,372 | - | (16,446,088) |
| **Transaction with owner in their capacity as owner** | | | | | | |
| **Shares issued** | 111,974 | - | - | - | - | 111,974 |
| **Shares to be issued (note a)** | 7,184,081 | | | | | 7,184,081 |
| **Treasury Shares** | - | - | - | - | - | - |
| **Capital raising costs** | (95,727) | - | - | - | - | (95,727) |
| **Employee Share Option Scheme** | - | - | - | - | 584,666 | 584,666 |
| **At 31 December 2017** | 103,682,993 | (1,191,078) | (76,137,580) | (499,682) | 3,057,137 | 28,911,790 |

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

Note a: Subscription monies are funds received from subscribers in advance of the shareholder meeting on 3 January 2018. At this meeting shareholders approved the Placing and shares were subsequently issued. Refer note 18: Events after Balance Date

# Interim Consolidated Statement of Cash Flows

| | | Consolidated | |
|---|---|---|---|
| | | 2017 | 2016 |
| **FOR THE HALF-YEAR ENDED 31 DECEMBER 2017** | **Note** | **A$** | **A$** |
| **Operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 11,132,150 | 13,470,938 |
| Payments to suppliers and employees (inclusive of GST) | | (29,147,129) | (17,835,288) |
| Government Grants | | - | 103,125 |
| Interest received | | 2,309 | 1,087 |
| Interest paid | | (41,691) | - |
| Income tax paid | | (28,404) | - |
| Payments received for research and development costs | | 4,700,825 | - |
| **Net cash flows used in operating activities** | | (13,381,940) | (4,260,138) |
| **Investing activities** | | | |
| Purchase of plant and equipment | | (740,154) | (141,724) |
| Payments for intangible assets | | (182,378) | (889,105) |
| Purchase of held to maturity financial assets | | (1,913) | - |
| **Net cash flows used in investing activities** | | (924,445) | (1,030,829) |
| **Financing activities** | | | |
| Proceeds from receipt of subscription monies | | 7,184,081 | - |
| Cost of capital raising | | (95,727) | - |
| Proceeds from borrowings | | 3,175,417 | - |
| Repayment of borrowings | | (110,544) | - |
| **Net cash flows from financing activities** | | 10,153,227 | - |
| Net decrease in cash and cash equivalents | | (4,153,158) | (5,290,967) |
| Net foreign exchange differences | | 164,909 | (53,423) |
| Cash and cash equivalents at 1 July | | 21,438,025 | 16,948,300 |
| **Cash and cash equivalents at 31 December** | 5 | 17,449,776 | 11,603,910 |

**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 2017 were authorised for issue in accordance with a resolution of the directors on 12 March 2018.

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 January 2018.

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 2017.

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 2017.

This is the first accounting period that the Company has had loans and borrowings. For details of the accounting policy see note 10.

## 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$16,711,460 (2016: loss of A$14,138,699). The Group has accumulated losses of A$76,137,580 (30 June 2017: A$59,426,120). The balance of cash and cash equivalents at 31 December 2017 is A$17,449,776 (30 June 2017: A$21,438,025). 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 18).

## 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. The segments have been modified since 30 June 2017 to include Aviation and Scientific Advances as separate segments. Certain comparatives have been reclassified to conform to the presentation for this half-year.

| FOR THE HALF YEAR ENDED 31 DECEMBER | Segment Revenue | | Segment Profit | |
|---|---|---|---|---|
| | Dec-17 | Dec-16 | Dec-17 | Dec-16 |
| **Revenue** | | | | |
| Automotive | 6,882,223 | 992,934 | (2,293,977) | (2,672,072) |
| Off-Road | 1,324,732 | 789,939 | 531,784 | (1,043,951) |
| Fleet | 5,868,572 | 1,637,875 | (14,637,450) | (10,870,924) |
| Aviation | 121,011 | 200,000 | (614,689) | (714,590) |
| Scientific Advances | 450,000 | 375,000 | (25,598) | 375,000 |
| Total | 14,646,538 | 3,995,748 | (17,039,930) | (14,926,537) |
| Total finance and other income | 328,470 | 787,838 | 328,470 | 787,838 |
| Total consolidated revenue – Profit/(Loss) | 14,975,008 | 4,783,586 | (16,711,460) | (14,138,699) |

## 4. Other income

| | Consolidated | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| FOR THE HALF-YEAR ENDED 31 DECEMBER | A$ | A$ |
| Research and Development refundable tax offsets | 121,493 | - |
| Other income | - | 10,195 |
| | 121,493 | 10,195 |

# Notes to the Interim Consolidated Financial Statements (continued)

## 5. Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | Dec 2017 | June 2017 |
| AS AT 31 DECEMBER | A$ | A$ |
| For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following: | | |
| Cash at bank and in hand | 17,449,776 | 21,438,025 |
| | 17,449,776 | 21,438,025 |

## 6. Trade and other receivables

| | Consolidated | |
|---|---|---|
| | Dec 2017 | June 2017 |
| AS AT 31 DECEMBER | A$ | A$ |
| **Current** | | |
| Trade receivables | 8,784,946 | 8,782,906 |
| Provision for doubtful debts | - | (95,531) |
| Deferred finance income | (971,881) | (1,311,163) |
| | 7,813,065 | 7,376,212 |
| **Other receivables** | 649,450 | 205,155 |
| | 8,462,515 | 7,581,367 |
| **Non-Current** | | |
| Trade receivables | 1,922,486 | 1,953,889 |
| Deferred finance income | (31,656) | (125,262) |
| | 1,890,830 | 1,828,627 |
| | 10,353,345 | 9,409,994 |

## 7. Inventories

| | Consolidated | |
|---|---|---|
| | Dec 2017 | June 2017 |
| AS AT 31 DECEMBER | A$ | A$ |
| Finished goods | 2,213,972 | 702,212 |
| | 2,213,972 | 702,212 |

## 8. Property, plant and equipment

During the half-year ended 31 December 2017, the Group acquired assets with a cost of A$740,154 (December 2016: A$141,724). The majority of these purchases are related to the fit out costs of the new Canberra and Tucson offices. No disposals occurred in this period.

# Notes to the Interim Consolidated Financial Statements (continued)

## 9. Intangibles

During the half-year ended 31 December 2017, the Group spent A$182,378 on intangibles (December 2016: A$889,105). The majority of these purchases are related to new patent applications. No patents were written-off during this period.

## 10. Financial liabilities

During the half-year ended 31 December 2017 the Group entered into arrangements for the lease of equipment, to finance inventory and to securitise a customer debtor.

*Initial recognition and measurement*
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, and loans and borrowings.

*Subsequent measurement*
The measurement of financial liabilities depends on their classification, as described below:

*Loans and borrowings*
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

## 11. Financial instruments

The financial instruments in this period include cash and cash equivalents, trade and other receivables, current financial assets, non-current financial assets, trade and other payables and other financial liabilities. The fair values of these assets and liabilities are approximate to their carrying values. The valuation techniques and inputs used for valuing financial instruments at 31 December 2017 are consistent with the policy used at 30 June 2017.

## 12. 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.

## 13. Shares issued during the half year

In September 2017, the non-executive directors received 25 per cent of their annual remuneration in the form of new Ordinary Shares, issued annually in arrears. The total number of new ordinary shares issued for this purpose was 1,704,457. The total value of these shares is A$90,166. Under the Employee Benefits Plan, the Company has also issued Ordinary Shares to an advisor to the board in lieu of cash for 50 per cent of his consulting fee. The total number of new ordinary shares issued for this purpose was 412,249. The total value of these shares is A$21,808.

In September 2017, 3,093,685 shares were issued to Mike McAuliffe as part of his continued employment. These shares related to performance rights that vested between August 2016 and August 2017. The total value of the shares was A$190,188. A further 773,421 shares were issued under the same conditions in December 2017, representing vested performance rights for the period September 2017 to November 2017. The total value of these shares was A$47,746.

# Notes to the Interim Consolidated Financial Statements (continued)

## 14. Commitments

*Operating lease commitments – Group as lessee*

The Group has three 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 2017 | Dec 2016 |
| | A$ | A$ |
| Within one year | 1,011,657 | 377,243 |
| After one year but not more than five years | 3,653,932 | 683,385 |
| More than five years | 4,017,732 | - |
| **Total** | **8,683,321** | **1,060,628** |

*Capital commitments*
At balance date, the Group anticipates a further investment of $2,500,000 for Phase Two of its Canberra office fit-out. No contractual commitment has been made against this at 31 December 2017. The fit-out is due for completion in May 2018 (refer Note 8).

## 15. Related party disclosure

**Shares in Seeing Machines Limited**

| **31 December 2017** | Balance 1 July 17 | Granted as remuneration | Acquired or sold for cash | Net change other | Balance 31 Dec 17 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| K Kroeger[1] | 5,528,268 | 2,803,125 | - | - | 8,331,393 |
| M McAuliffe | - | 3,867,106 | - | - | 3,867,106 |
| T Crane | - | 156,753 | - | - | 156,753 |
| R Burger | 267,374 | 236,424 | - | - | 503,798 |
| J A Walker | 320,849 | 283,709 | - | - | 604,558 |
| P Housden (resigned 25 July 2017) | 82,557 | 230,854 | - | - | 313,411 |
| L Carmichael | 90,978 | 236,424 | - | - | 327,402 |
| Yong Kang NG | 72,181 | 236,424 | - | - | 308,605 |
| **Total** | **6,362,207** | **8,050,819** | **-** | **-** | 14,413,026 |

**1.** Includes shares held through Cook Kroeger Superannuation Fund and shares held by trustee of employee share plan trust, which have vested.

***(i) Other Director-related transactions***

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

# Notes to the Interim Consolidated Financial Statements (continued)

## 16. Key management personnel

### *(a) Details of Key Management Personnel*

#### *(i) Directors*

| | |
|---|---|
| Ken Kroeger (interim CEO as of 29 January 2018) | Executive Chairman & Interim CEO |
| James Allan Walker | Deputy Chairman |
| Mike McAuliffe (resigned 21 February 2018) | CEO & Executive Director |
| Les Carmichael | Director (non-executive) |
| Rudolph Burger | Director (non-executive) |
| Yong Kang (YK) Ng | Director (non-executive) |
| Tim Crane | Director (non-executive) |
| Peter Housden | Director (non-executive) resigned 31 July 2017 |

#### *(ii) Executives*

| | |
|---|---|
| Nick Difiore | Senior Vice President & General Manager, Automotive |
| Paul Angelatos | Senior Vice President & General Manager, Fleet, Rail & Off Road Applications |
| Tim Edwards | Chief Technology Officer |
| Sebastian Rougeaux | Chief Scientist, Machine Intelligence |
| Mike Lenné | Chief Scientist, Human Factors |
| Patrick Nolan | General Manager, Aviation |
| Nicole Makin | Senior Vice President People and Culture |
| James Palmer | Chief Financial Officer |

### *(b) Compensation for Key Management Personnel*

| | Half-year to December 2017 A$ | Half-year to December 2016 A$ |
|---|---|---|
| Short-term employee benefits | 2,480,327 | 2,149,418 |
| Share based payments | 598,236 | 129,221 |
| Total | 3,078,563 | 2,278,639 |

# Notes to the Interim Consolidated Financial Statements (continued)

## 17. Share based payments

### *(a) Recognised share based payment expenses*

| | Dec 2017 | Dec 2016 |
|---|---|---|
| | A$ | A$ |
| Expense arising from share-based payment transactions under Employee share Loan | 87,935 | 33,912 |
| Expense arising from the performance rights long term incentive | 121,392 | 11,401 |
| Expense arising from options under long term incentive | 375,339 | - |
| Expense arising from the shares issued to the employees | - | 191,411 |
| Add directors shares | 90,166 | 23,079 |
| Total | 674,832 | 259,803 |

**(b) Employee share loan plan (ESLP)**

From 2012 to 2015 the Company 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, from 2015 the Board adopted performance rights and options as a long term incentive tool, instead of using a more complex trust and loan structure. Some of the shares issued to the trustee have vested and are held on trust for the relevant executives. Other shares have not vested (for instance where the executive has left the company or the performance conditions were not met). The trustee may transfer these unvested shares to other staff (or sell the shares and pay the net proceeds) as part of ongoing incentive programs.

**(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 or share options. Under this structure, the executives are only able to exercise the rights, and have New Ordinary Shares issued to them, if the performance and/or vesting conditions are met. These conditions typically include a vesting period of 2-3 years from the end of the relevant financial year. Performance rights or options are often offered as part of the annual remuneration review and may be offered at other times (for instance for new senior staff joining the company). Any offer of performance rights or options requires Board approval and, when granted, is announced to the market. A tranche of performance rights and options was granted on 13 October 2017.

For all options standard valuation methodologies are used (binomial, trinomial and Black Scholes) using historic volatility as a proxy for implied volatility, long term UK gilt prices for the risk free rate and AIM share price information.

# Notes to the Interim Consolidated Financial Statements (continued)

## 17. 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% |

For some performance right offers, the vesting conditions of the rights are linked to the achievement of the Target Share Price (TSP) as agreed in the offer document. The rights 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 2017 No. | December 2017 WAEP (cents) | December 2016 No. | December 2016 WAEP (cents) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 33,856,297 | 6.78 | 26,569,811 | 6.66 |
| Granted during the year | 33,223,091 | 4.79 | 7,286,486 | 7.21 |
| Forfeited during the year | (824,531) | 4.79 | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Outstanding at 31 December | 66,254,857 | 5.81 | 33,856,297 | 6.78 |
| | | | | |
| Exercisable at 31 December | - | - | - | - |

Weighted average fair value of the options granted during the half year was £0.0284 (A$0.0479) per share.

## 18. Events after balance date

Following successful discussions with potential investors during late 2017, on 3 January 2018 the company held a General meeting at which the shareholders approved the issue of 700,000,000 Ordinary shares (comprising Placement shares and Subscription shares) at an issue price of 5 pence. This resulted in proceeds from the issue of shares of GBP35m during January 2018. An offer was also made to existing eligible shareholders which closed on 12 January 2018 raising a further GBP2.4m during January 2018.

On 29 January 2018, Mike McAuliffe, CEO and Director left the Company. Executive Chairman Ken Kroeger was appointed as interim CEO by the Board until the recruitment of a new CEO is finalised.

## 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 for the half-year ended 31 December 2017 present fairly, in all material aspects, the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date, in accordance with the Australian Accounting Standards.

(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

Ken Kroeger
Chairman & Interim CEO

Canberra, 12 March 2018

Building a better working world

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To the members of Seeing Machines Limited

# Report on the Half-year Financial Report

We have reviewed the accompanying 31 December 2017 half-year financial report of Seeing Machines Limited, which comprises the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year 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 2017 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
12 March 2018