# Annual Report 2011/12

visionary technology

seeingmachines

ABN 34 093 877 331

# Seeing Machines Limited

# Annual Financial Report

# For the year ended
# 30 June 2012

# Contents to Financial Report

# Corporate Information

## ABN 34 093 877 331

This annual report covers Seeing Machines Limited as a consolidated entity. The Group's functional and presentation currency is AUD($).

A description of the Group's operations and its principal activities is included in the review of operations and activities in the directors' report commencing on page 3. The directors' report is not part of the financial report.

| | | | |
|---|---|---|---|
| **Directors** | Terry Winters | Non Executive Chairman | From 16 April 2012 |
| | Ken Kroeger | Managing Director | From 3 January 2012 |
| | Rob Sale | Non Executive Director | |
| | David Gaul | Non Executive Director | |
| | Trent Victor | Non Executive Director | Resigned 30 September 2012 |
| | Alexander Zelinsky | Non Executive Director | |
| | William Mobbs | Non Executive Chairman | Resigned 31 December 2011 |
| **Company Secretary** | Allistar Twigg | | From 17 February 2012 |
| | Belinda Burgess | | |

**Registered office**

Level 1, 11 Lonsdale Street
Braddon ACT 2612

**Principal place of business**

Level 1, 11 Lonsdale Street
Braddon ACT 2612

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Fax: + [61] 2 6103 4701
Email: info@seeingmachines.com

**Share Register**

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067

Seeing Machines Limited shares are listed on the London Stock Exchange AIM market.

**Solicitors**

Piper Alderman
Level 23
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000
Australia

Filed Fisher Waterhouse LLP
35 Vine Street
LONDON EC3N 2PX
United Kingdom

**Bankers**

Commonwealth Bank of Australia Limited
University Drive
Canberra ACT 2600

**Auditors**

Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2600

# Directors' Report

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

### DIRECTORS

The names of the Company's directors in office during the year and until the date of this report are listed below. All directors were in office for this entire period covered by the report unless otherwise stated.

| | | |
|---|---|---|
| Terry Winters | Executive Chairman | From 16 April 2012 |
| Ken Kroeger | Managing Director | From 3 January 2012 |
| Rob Sale | Non Executive Director | |
| David Gaul | Non Executive Director | |
| Trent Victor | Non Executive Director | Resigned 30 September 2012 |
| Alexander Zelinsky | Non Executive Director | |
| William Mobbs | Non Executive Chairman | Resigned 31 December 2011 |

### REVIEW OF OPERATIONS

#### Financial Results

Total revenue for the year was A$7,824,226 (2011: A$7,161,938) an increase of A$662,288 (9.25%) over the prior year. Revenue from sale of goods, license fees and services was A$7,031,353 (2011: A$7,024,749).

Other income was A$792,873 (2011: A$137,189) primarily due to the recovery of R&D refund offsets from the Australian Taxation Office and favourable foreign exchange variations.

Cost of Goods Sold (COGS) was A$2,715,786 (2011: A$2,149,718). This increase resulted from a change in product mix resulting from higher DSS sales, the sale of services and lower faceLAB and faceAPI sales. Operational expenses were A$6,843,517 and have increased marginally by A$98,424 (2011: A$6,745,093).

Overall, the Group made a net loss of A$1,735,077 for the year ended 30 June 2012, an improvement of A$439,874 (2011: loss of A$2,174,951).

The Group had A$578,022 in cash at 30 June 2012 compared to A$1,648,786 at 30 June 2011 and debtors of $1,627,314 compared to A$1,555,275 in the previous year.

#### Driver Safety Solution (DSS)

The DSS business unit achieved revenues of A$4,989,482 (2011: A$4,300,715), an increase of A$688,767 (16%) over the previous year. Sales in Australia during the year generated over A$1.6 million in revenue seeing Australia overtake the United States as the biggest revenue contributor for the DSS. In the second half of the 2012 financial year, the installed base of DSS units grew rapidly following the release of the company's 3rd generation ruggedized product as the number of blue chip mining customers confirmed their adoption of DSS as their preferred Fatigue detection and management system. North America has the largest number of deployed systems but there are now also significant deployments in Australia, South America and Africa.

The strategy for commercialisation of the DSS technology remains strongly focused on the global mining and resource sectors through direct sales and channel partners. Channel partners have been appointed for Africa and Latin America. Other global channel partnerships are currently being negotiated.

The DSS pipeline continues to grow, offering further opportunity for growth and profitability in the current and future years. The Company's strategy is to derive revenue from:

- product (equipment) sales and recurring maintenance;
- specialist services to support the operation of the DSS; and
- specialist fatigue management consulting, data management, analysis and reporting services.

A strong focus will be on growing the services side of the business particularly through our data management, analysis and reporting services made possible through the DSSi database analysis and reporting suite.

Seeing Machines blue chip customers currently include:

- Freeport-McMoRan (installations in United States, Peru, Chile and Indonesia);
- BHP Billiton (Installations in Australia, United States, South Africa, Chile);
- Teck Energy (installations in Canada);
- Cloud Peak Energy (installations in Wyoming USA);
- Newmont Mining Corporation (installations in United States, Indonesia and Australia);
- Toll Mining Services (installations in Australia in Queensland, Western Australia and South Australia); and
- Xstrata (installation in Chile).

There are currently over 22,000 mining Haul Trucks in operation around the world. This number is growing at an estimated 7-8% per year. Less than 1,200 of the Haul Trucks in operation have Fatigue Detection and Management systems installed, creating a substantial opportunity for the company.

At 30 June 2012, Seeing Machines had 680 systems installed in Haul Trucks and other mining related vehicles. Between January and June 2012, the company shipped over 180 units and had a backlog of over 200 units at 30 June 2012.

**faceAPI™**

faceAPI achieved revenue for the year of A$440,789 (2011: A$484,446) down by A$43,657 (a 9% reduction) over the prior year. The majority of the revenue generated to date has been achieved though Developer License sales and a small number of production licenses. faceAPI Developer licenses are sold in US dollars globally.

This and other faceAPI revenue will grow during 2013 through both current and new licensing agreements.

**faceLAB®**

faceLAB® achieved sales for the year of A$1,601,801 (2011:A$2,239,588) down by A$637,787 (28.5%). This contraction in revenue was expected in the lead-up to the release of exciting new product capability resulting from the company's R&D. Intensive R&D efforts over the last year have resulted in the development of a new set of revolutionary eye gaze tracking algorithms that will be gradually introduced across all of the organisation's commercial offerings.

During 2012, the following customers purchased faceLAB systems:

- Daimler;
- West Point Military Academy;
- Philips;
- Medstar Research Institute;
- GE Aviation; and
- Johnson Controls.

**TrueField Analyzer®**

The Company's focus has been to support the work of the ANU College of Medicine, Biology and Environment to resolve issues with the TFA's stimulus delivery mechanism which is preventing commercialisation of the TFA. This is now completed and the final TrueField medical trials are underway. The first has delivered high quality repeatable performance and we expect the second and final trial to yield the same outcome. Following on from the trials, we expect to initiate the luminary review and validations phase, which will lead to a commercial licensing arrangement in late 2013 / early 2014.

It has already been confirmed that the TFA will also be applicable to testing of Aged Macular Degeneration (AMD) and Diabetic Retinopathy (DR) in addition to Glaucoma the initial focus of the development.

**Current Trading and Future Strategy**

Since the end of the 2012 financial year, additional business has been secured with both existing and new customers that will further expand the DSS installed base over 2013 and 2014:

- In July and August 2012, the Company shipped a further 104 DSS units; and
- At the end of August, the Company had a backlog of a further 190 units to ship in September and October 2012, with a current "high-probability" pipeline of more than 800 units to ship before 30 June 2013.

Trading in the first two months of the new financial year has been strong with the Company generating revenues of over A$1.7 million and EBIT of over A$0.2 million with debtors increasing to over $2.1 million. This level of performance is very encouraging. However, it should not be assumed that this level of monthly trading will occur consistently at this level for the remaining 10 months of the year.

Since 30 June 2012, Seeing Machines has taken steps to organise itself around business units that each bring together a particular technology and market focus aligned with the company's commercial offerings. Going forward, the Seeing Machines business will comprise three divisions: the Driver Safety Solutions group will be responsible for all technical and business related aspects of vehicle occupant safety and driver awareness; the Consumer face and eye-tracking group which will manage development and sales of all non-vehicle operator related technology; and the Core Technology group, which will manage R&D and IP protection functions.

Seeing Machines immediate priorities in this financial year are as follows:

- To develop a fully outsourced DSS manufacturing and logistics partnership to:
  - enable the Company to meet demand from its current and expected customers;
  - further improve product ruggedness and reliability (tailored specifically to the resources sector) to reduce field support costs;
  - reduce cost of goods (COGS) to streamline production and increase product margins;
  - increase competitive barriers to entry; and
  - to continue development and enhancement of the DSSi to support existing customers and to underpin the Company's services offering which is expected to generate significant revenue in future years.

With the increased demand levels for the DSS product, Seeing Machines has commenced migration to a fully outsourced manufacturing and logistics model. A select group of manufacturers are currently being evaluated based on their ability to provide world-class ruggedized DSS products and scale to meet our rapid growth in unit sales in the current and future financial years. The selected supplier will be expected to manufacture and assemble all of the system components and ship direct to distributors and customers.

The Company's focus for DSS during 2013 will be to:

- Significantly expand the DSS customer and installed base in the Americas, Sub Saharan Africa, Central Asia and APAC (including Australia and South East Asia);
- Continue to support the existing DSS customer base in these countries with new 3rd and 4th generation products;
- Develop further global channel partners to develop the DSS presence in high-demand, mining driven economies;
- Continue to grow the Company's service and support capability;

- Develop further commercialisation opportunities for the DSS technology in other sectors both directly and with strategic partners; and
- Progress DSS hardware and software development projects to facilitate entry into other major non-mining related transport sectors.

**R&D and Product Development**

Seeing Machines' commercially licensed face tracking software, faceAPI, has recently been released for the Linux operating system. The new version is capable of tracking multiple faces simultaneously with similar CPU demand profile to the single face tracking function – a feature developed due to demand from the home theatre industry

R&D activities related to the consumer face tracking group products include a variety of initiatives aimed at increasing the software's ability to capture and interpret all aspects human facial characteristics including the synthesis of sound.

Additional R&D outcomes from these initiatives will include the porting of the algorithms to "lighter footprint" processors typically used in today's smart phones and tablets.

Beyond the resources sector, Seeing Machines is working collaboratively with a number of top tier automotive manufacturers in the development of in-vehicle driver monitoring systems.

Some of these developments are being driven by the pending arrival of semi-autonomous passenger cars and the advancement of the next generation of active passenger safety systems intended to respond to the risk posed by in-car communications, internet and entertainment systems. The company sees these as long term high value opportunities.

**Chief Executive Officer**

The Company's Chief Executive Officer for the full financial year to 30 June 2012 was Ken Kroeger.

**Company Secretary**

The Company Secretary for the full financial year to 30 June 2012 and at the date of this report is Belinda Burgess. Allistar Twigg was also appointed as Company secretary from 17 February 2012.

**Staff**

At 30 June 2012 the Group had 33 full-time employees (36 employees at 30 June 2011).

**Outlook**

2012 has been a period of considerable investment for Seeing Machines as the Company moves forward with its strategy of commercialising its products and technology. During the period Seeing Machines has expanded its sales teams, improved its technology and further developed its service offerings.

As a result, the Company is seeing an increasing number of opportunities which in turn is leading to an expanding order pipeline, giving the Board confidence of strong revenue growth in 2013 along with improved overall financial performance.

The names and particulars of the directors of the Company are set out in the following table. The directors were in office for the entire period unless otherwise stated.

| Name and qualifications | Experience and special responsibilities |
|---|---|
| Terry Winters<br>FAICD<br>(since April 16 2012) | Chairman and Chair of the Audit Committee<br>Terry is widely known as a strategic leader having served as chairman and director of several Australian and international listed and private companies and charities. He has led companies from start-up to successful realisation events and is currently chairman of Australian Home Care Services, Converge International and Intelledox and is a director of Future Fibre Technologies and Many Rivers Microfinance. Terry led the team that created Optus Communications, Australia's second telecommunications carrier. Prior to this he founded Link Telecommunications, a business that grew to over $200 million in revenues with over 1,000 employees. In addition, he spent 13 years on various boards of the Multiple Sclerosis Society in Australia. During this time he led the creation of a 'for profit' subsidiary, achieving revenues today of greater than A$100m. He also served on several boards of Opportunity International, a global microfinance organisation, including a period as its global chairman. |
| Rob Sale | Non-Executive Director and member of the Remuneration Committee<br>Mr Sale is the Managing Director of Diversionary Therapy Technologies Pty Ltd, a medical devices company. Rob has a long track record of success in establishing and developing technology start-ups. He grew Abacus Data Systems, an Australian IT services and software development company from 20 to over 100 staff and contractors, ultimately negotiating the sale of the business in 1999. Rob is a member of the CSIRO Sector Advisory Committee on Information Technology, Communications and Services and sits on one of CSIRO's technology company boards. CSIRO is one of Australia's largest and most diverse scientific and research organisations. |
| David Gaul<br>FAICD | Non-executive director and member of the Audit and Nominations Committee<br>Mr Gaul is co-founder, non-executive director and past President of CEA Technologies, a highly successful technology company that designs and develops radar and communications technology. David was the Australian Technology Entrepreneur of the Year in 2003 and Australian Export Hero 2009/2010. David has over 20 years experience in high-tech commercialism. David is a founding fellow of the Australian Institute of Company Directors. |
| Dr Trent Victor<br>Ph. D., M. Sc.<br>(Resigned 30 September 2012) | Non-executive director and member of the Nomination Committee<br>Dr Victor is Senior Researcher at Volvo Technology. Volvo Technology is a research and innovation company in the Volvo Group where new technologies, products and businesses are developed. Trent is responsible for co-ordination of research, innovation, and product development in Safety Analysis and Human Factors. He has specific expertise in driver awareness products, such as drowsiness alert, distraction alert, interaction support (workload management), attention-sensitive driving support, impairment detection and distraction evaluation tools. Trent has been the key person behind Volvo's involvement in Seeing Machines, ever since Volvo's first research contract with the Australian National University in the 1990s. |

| Name and qualifications | Experience and special responsibilities |
|---|---|
| Dr Alexander Zelinsky<br><br>Ph.D, B.Math(Hons), FIEEE, FTSE, FAICD, FIEAust. | Non-executive director and member of the Remuneration Committee<br><br>Dr Zelinsky is currently Chief Scientist at DSTO. Prior to this Alex was Group Executive, Information Sciences at CSIRO. Alex is a co-founder of Seeing Machines and was the company's first CEO. Alex was also Professor and Head of Department of Information Engineering at the Australian National University. Alex is extensively published and is internationally recognised as a leader in the fields of robotics and computer vision. He has worked in the computer industry and has had extensive international experience as a project leader developing cutting edge technology. Alex has received numerous international awards and recognition for his work. In May 2005 Alex received the prestigious Australian Academy of Technological Sciences and Engineering Clunies-Ross Award for successful innovation involving the application of science and technology for the benefit of Australia. |
| Ken Kroeger<br><br>(since 3 January 2012) | Managing Director<br><br>Ken comes from a long technology and commercialisation background with exposure to a wide variety of industry sectors. He was the founder of international simulation & training business Catalyst Interactive; with offices in three countries and over 100 employees. The organisation was highly recognised for innovation & high customer service levels and was sold to Halliburton subsidiary, Kellogg, Brown and Root in 2008. Ken has held multiple board directorships, and enjoys mentoring a number of start-up entrepreneurs through his Directorship at Lighthouse Innovations and remains involved in aged care services company HealthCube. |
| Allistar Twigg<br><br>(since 17 February 2012) | Company Secretary<br><br>Allistar has an extensive and varied background spanning careers in the Air Force, merchant banking, as a barrister in private practice, as a company secretary and corporate counsel. His experience includes founder of and senior positions in IT companies and the Air Force legal reserve, advising across a broad range of high-level strategic and management issues, and specialisations in corporations law, commercial law and aviation law.<br><br>Since 2001, Allistar has been semi-retired, sitting on a number of boards and providing occasional consultancy advice. He currently sits on the board of one other (proprietary) company, and is the secretary of another (proprietary) company. |
| Belinda Burgess | Company Secretary<br><br>Belinda Burgess is the Operations Manager and one of the Company Secretaries of Seeing Machines. Belinda has over 20 years' experience in high tech companies in R&D Management, Commercial Management, Contract Management, Operations, Finance and Human Resource Management. Prior to joining Seeing Machines in April 2005 Belinda had been General Manager of Commercial Services at SoftLaw Corporation. |

**Principal Activities**

The Company's principal activities during the year were:

- development and sale of the DSS™ Product Suite to detect and manage driver fatigue and distraction, including continued market development to secure sustainable channels to market for the product;
- development and sale of the faceAPI™ Developer Licenses and the development of commercial opportunities for Production Licenses for applications developed using faceAPI™;
- development, sale and distribution of the faceLAB® product;
- continued support for the work of the Australian National University Research School of Biology in finalizing the science underpinning the Company's TrueField Analyzer® medical device to assist doctors detect and manage glaucoma and other eye diseases; and
- research and development of the Company's core vision processing technologies to support the development and refinement of the Company's products.

**Changes in State of Affairs**

During the financial year there was no other significant change in the state of affairs of the Company other than those referred to in the financial statements or notes thereto.

**Subsequent Events After the Balance Date**

Subsequent to the end of the financial year the Group has undertaken capital raising activities which were finalised 19 October 2012. Funds raised from this round totaled $A1.996 million. Additional capital raising activities are planned in the new calendar year, but no firm estimate of the value of this activity has been made.

Following the year end, Research and Development expenditure claims have been finalised and submissions lodged with AusIndustry. As a result, and subject to assessment by AusIndustry and the Australian Taxation Office, refundable tax offsets totaling $1,001,099 are expected to be received in late November 2012.

**Environmental Regulations**

The Company holds no licences issued by relevant Environmental Protection Authorities and there have been no known breaches of any environmental regulations.

**Dividends**

No dividends or distributions have been made to members during the year ended 30 June 2012 and no dividends or distributions have been recommended or declared by the Directors in respect of the year ended 30 June 2012.

**Share Options**

**(i) Share options granted during or since the end of the year**

No share options were granted during the year.

**(ii) Shares Issued as a Result of the Exercise of Options**

During the year no Ordinary Shares have been issued as a result of the exercise of options under the Employee Share Options Scheme.

Since the end of the financial year there have been no shares issued by the Board as a result of the exercise of options under the Employee Share Options Scheme.

**Unissued Shares**

As at the date of this report there were 615,415 unissued ordinary shares under options (615,415 at the reporting date).

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the issue of any other registered scheme.

**Indemnification of Directors and Officers**

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (Seeing Machines Limited and the US subsidiary Seeing Machines Inc), the Company Secretary's, and all executive officers of the Company against a liability incurred as such a Director, secretary, or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Directors Meetings**

During the 2012 financial year, 12 Board meetings were held. The following table sets out the number of Directors' meetings each Director was eligible to attend and the number of meetings they actually attended[1].

| Director | Meetings Eligible to Attend | Meetings Attended |
|---|---|---|
| Terry Winters | 4 | 4[2] |
| Rob Sale | 12 | 12 |
| David Gaul | 12 | 12 |
| Ken Kroeger | 6 | 6[3] |
| Trent Victor | 12 | 11 |
| Alexander Zelinsky | 12 | 12 |
| William Mobbs | 6 | 6[4] |

[1] Attendance via telephone conference call included.
[2] Terry Winters was appointed on 16 April 2012.
[3] Ken Kroeger was appointed during the year and attended 6 meetings in his capacity as Managing Director. He attended all other meetings as CEO.
[4] William Mobbs resigned effective 31 December 2011

**Proceedings on Behalf of the Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

**Auditor's Independence Declaration**

We have obtained an independence declaration from our auditors, Ernst & Young. The signed declaration is included after this report.

**Non-Audit Services**

The following non-audit services were provided by the Company's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

| | |
|---|---|
| Tax compliance and other services: | $20,845 |

Signed at Canberra this 25th day of October 2012 in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

Terry Winters
Chairman

Ken Kroeger
Managing Director

Ernst & Young
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## Auditor's Independence Declaration to the Directors of Seeing Machines Limited

In relation to our audit of the financial report of Seeing Machines Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

James Palmer

James Palmer
Partner
25 October 2012

# Statement of Financial Position

| AS AT 30 JUNE 2012 | Note | Consolidated 2012 A$ | Consolidated 2011 A$ |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 13 | 578,022 | 1,648,786 |
| Trade and other receivables | 14 | 1,627,314 | 1,555,275 |
| Inventories | 15 | 86,151 | 332,152 |
| Other current assets | 16 | 222,139 | 199,341 |
| **TOTAL CURRENT ASSETS** | | 2,513,626 | 3,735,554 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 17 | 256,254 | 358,900 |
| Intangible assets | 18 | 479,573 | 467,582 |
| **TOTAL NON-CURRENT ASSETS** | | 735,827 | 826,482 |
| **TOTAL ASSETS** | | 3,249,453 | 4,562,036 |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 19 | 1,486,621 | 1,325,671 |
| Provisions | 20 | 408,717 | 402,129 |
| **TOTAL CURRENT LIABILITIES** | | 1,895,338 | 1,727,800 |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions Non-Current | 21 | 203,966 | 159,754 |
| **TOTAL NON-CURRENT LIABILITIES** | | 203,966 | 159,754 |
| **TOTAL LIABILITIES** | | 2,099,304 | 1,887,554 |
| **NET ASSETS** | | 1,150,149 | 2,674,482 |
| **EQUITY** | | | |
| Contributed equity | 22 | 15,024,112 | 14,813,612 |
| Accumulated losses | 23 | (14,567,460) | (12,832,383) |
| Other reserves | 23 | 693,497 | 693,253 |
| **TOTAL EQUITY** | | 1,150,149 | 2,674,482 |

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

# Statement of Comprehensive Income

| FOR THE YEAR ENDED 30 JUNE 2012 | Note | Consolidated 2012 A$ | Consolidated 2011 A$ |
|---|---|---|---|
| **Continuing operations** | | | |
| Sale of goods and licence fees | | 6,079,526 | 6,504,936 |
| Rendering of services | | 951,827 | 519,813 |
| **Revenue** | | 7,031,353 | 7,024,749 |
| Cost of Sales | | (2,715,786) | (2,149,718) |
| **Gross Profit** | | 4,315,567 | 4,875,031 |
| Other income | 7 | 792,873 | 137,189 |
| Research and Development Expenses | | (1,604,493) | (2,626,651) |
| Distribution Expenses | | (625,739) | (319,162) |
| Marketing expenses | | (1,256,879) | (1,298,740) |
| Occupancy and facilities expenses | | (745,730) | (679,566) |
| Administration expenses | | (2,610,676) | (1,820,974) |
| Other expenses | 8 | - | (442,078) |
| **Loss from continuing operations before income tax** | | (1,735,077) | (2,174,951) |
| Income tax expense | 9 | - | - |
| Loss from continuing operations after income tax | | (1,735,077) | (2,174,951) |
| **Net Loss for the year** | | (1,735,077) | (2,174,951) |
| **Other comprehensive income** | | | |
| Foreign currency translation | | 244 | (1,911) |
| **Other comprehensive income net of tax** | | 244 | (1,911) |
| **Total comprehensive income** | | (1,734,833) | (2,176,862) |
| Earnings per share for profit attributable to the ordinary equity holders of the company: | 11 | | |
| · Basic earnings per share | | (0.420) | (0.532) |
| · Diluted earnings per share | | (0.420) | (0.532) |

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

# Statement of Changes in Equity

| FOR THE YEAR ENDED 30 JUNE 2012 | Note | Contributed Equity A$ | Accumulated Losses A$ | Foreign Currency Translation A$ | Employee Equity Benefits Reserve A$ | Total Equity A$ |
|---|---|---|---|---|---|---|
| **At 1 July 2010** | | 14,664,487 | (10,657,432) | 46,905 | 780,229 | 4,834,189 |
| Loss for the year | | - | (2,174,951) | - | - | (2,174,951) |
| Other comprehensive income net of tax | | - | - | (1,911) | - | (1,911) |
| **Total comprehensive income** | | - | (2,174,951) | (1,911) | - | (2,176,862) |
| **Transaction with owner in their capacity as owner** | | | | | | |
| Share based payment | | - | - | - | (131,970) | (131,970) |
| Share issue | | 149,125 | - | - | - | 149,125 |
| **At 30 June 2011** | | 14,813,612 | (12,832,383) | 44,994 | 648,259 | 2,674,482 |
| **At 1 July 2011** | | 14,813,612 | (12,832,383) | 44,994 | 648,259 | 2,674,482 |
| Loss for the year | | | (1,735,077) | | | (1,735,077) |
| Other comprehensive income | | - | - | 244 | - | 244 |
| **Total comprehensive income** | | - | (1,735,077) | 244 | - | (1,734,833) |
| **Transaction with owner in their capacity as owner** | | | | | | |
| Share based payment | | - | - | - | - | - |
| Share issue | | 210,500 | - | - | - | 210,500 |
| **At 30 June 2012** | | 15,024,112 | (14,567,460) | 45,238 | 648,259 | 1,150,149 |

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

# Statement of Cash Flows

| FOR THE YEAR ENDED 30 JUNE 2012 | Note | Consolidated 2012 A$ | Consolidated 2011 A$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 6,971,333 | 6,737,913 |
| Grants received | | - | 49,125 |
| Payment to suppliers and employees | | (8,721,133) | (8,864,926) |
| Interest received | | 33,253 | 88,064 |
| Payments received for Research and Development Costs | | 724,803 | - |
| **Net cash flows used in operating activities** | 24 | (991,744) | (1,989,824) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of plant and equipment | | - | - |
| Purchase of plant and equipment | | (22,872) | (235,428) |
| Payments for intangible assets | | (56,392) | (30,916) |
| **Net cash flows used in investing activities** | | (79,264) | (266,344) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | - |
| Costs of capital raising | | - | - |
| **Net cash flows from financing activities** | | - | - |
| Net (decrease)/increase in cash and cash equivalents | | (1,071,008) | (2,256,168) |
| Net foreign exchange differences | | 244 | - |
| Cash and cash equivalents at beginning of period | | 1,648,786 | 3,904,954 |
| **Cash and cash equivalents at end of period** | 13 | 578,022 | 1,648,786 |

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

# Notes to the Financial Statements

### 1. Corporate Information

The financial report of Seeing Machines Limited (the Company) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 25 October 2012.

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

The nature of the operations and principal activities of the Group are described in the Directors' Report.

### 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 year of $1,735,077 (2011: Loss of $2,174,951). The Group has Accumulated Losses of $14,567,460 (2011: Accumulated Losses of $12,832,383). The balance of cash and cash equivalents at 30 June 2012 is $578,022 (2011: Cash and cash equivalents $1,648,786). 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. These cash flow forecasts are based on a number of assumptions in particular about the Group's ability to meet projected sales levels, additional capital being raised and approval of the Research and Development Tax Incentive claim.

The directors are of the opinion that there are reasonable grounds to believe that the company will meet projected revenue, retain overheads at budget levels and receive the Research and Development Tax Incentive claim. As disclosed in Note 30, subsequent to year end, the Group has successfully raised $1.996m and will shortly lodge a Research and Development Tax Incentive claim for $1m. The directors are continuing to monitor cash flows on a weekly basis and tightly managing discretionary expenditure. On this basis the directors believe the adoption of the going concern basis of accounting is justified. However, should this position change the Group may not be able to pay its debts as and when they fall due and may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustment relating to the recoverability and classification of recorded assets nor to the amount and classification of liabilities that might be necessary should the Group not continue as a going concern.

### 3. Summary of significant accounting policies

#### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards as issued by the Australian Accounting Standards Board and other authoritative pronouncements of the Australian Accounting Standards board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

#### (b) Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### (c) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011:

- AASB 124 (Revised) – Simplified definitions of related parties;
- AASB 2009-12 Amendments to Australian Accounting Standards – Operating Segments (AASB 8) and various other editorial changes effective 1 July 2011;
- AASB 2010-4 Amendments to Australian Accounting Standards arising from Annual Improvements Project effective 1 July 2011;
- AASB 2010-5 Amendments to Australian Accounting Standards; and
- AASB 1054 – Australian Additional Disclosures;

# Notes to the Financial Statements (continued)

### 3. Summary of significant accounting policies (continued)

### (c) New accounting standards and interpretations (continued)

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2012. These are outlined in the table below.

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2011-3 | Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049] | This Standard makes amendments including clarifying the definition of the ABS GFS Manual, facilitating the orderly adoption of changes to the ABS GFS Manual and related disclosures to AASB 1049.<br><br>Amendments to Australian Accounting Standards – Improvements to AASB 1049 can be found in AASB 2011-13. | 1 July 2012 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2012 |
| AASB 2011-9 | Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] | This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. | 1 July 2012 | The Group has determined that whilst the changes may impact on the disclosure of some items there will be no impact on the current accounting treatment of those items. | 1 July 2012 |

# Notes to the Financial Statements (continued)

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 9 | Financial Instruments | AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.<br>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.<br>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.<br>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.<br>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.<br>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:<br>► The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br>► The remaining change is presented in profit or loss<br>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.<br>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. | 1 January 2013 | The Group has determined that whilst the changes may impact on the disclosure of some items there will be no impact on the current accounting treatment of those items. | 1 July 2013 |

# Notes to the Financial Statements (continued)

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 10 | Consolidated Financial Statements | AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.*<br><br>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.<br><br>Consequential amendments were also made to other standards via AASB 2011-7. | 1 January 2013 | There is not expected to be any impact on the group from these amendments. | 1 July 2013 |
| AASB 12 | Disclosure of Interests in Other Entities | AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. | 1 January 2013 | There is not expected to be any impact on the group from these amendments. | 1 July 2013 |
| AASB 13 | Fair Value Measurement | AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.<br><br>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.<br><br>Consequential amendments were also made to other standards via AASB 2011-8. | 1 January 2013 | The Group has determined that whilst the changes may impact on the disclosure of some items there will be no impact on the current accounting treatment of those items. | 1 July 2013 |

# Notes to the Financial Statements (continued)

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 119 | Employee Benefits | The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets.<br><br>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.<br><br>Consequential amendments were also made to other standards via AASB 2011-10. | 1 January 2013 | The Group has determined that whilst the changes may impact on the disclosure of some items there will be no impact on the current accounting treatment of those items. | 1 July 2013 |
| Annual Improvements 2009–2011 Cycle | Annual Improvements to IFRSs 2009–2011 Cycle | This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.<br><br>The following items are addressed by this standard:<br><br>IFRS 1 First-time Adoption of International Financial Reporting Standards<br>• Repeated application of IFRS 1<br>• Borrowing costs<br><br>IAS 1 Presentation of Financial Statements<br>• Clarification of the requirements for comparative information<br><br>IAS 16 Property, Plant and Equipment<br>• Classification of servicing equipment<br><br>IAS 32 Financial Instruments: Presentation<br>• Tax effect of distribution to holders of equity instruments<br><br>IAS 34 Interim Financial Reporting<br>• Interim financial reporting and segment information for total assets and liabilities | 1 January 2013 | The Group has determined that whilst the changes may impact on the disclosure of some items there will be no impact on the current accounting treatment of those items. | 1 July 2013 |

# Notes to the Financial Statements (continued)

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 1053 | Application of Tiers of Australian Accounting Standards | This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:<br>(a) Tier 1: Australian Accounting Standards<br>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements<br>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.<br>The following entities apply Tier 1 requirements in preparing general purpose financial statements:<br>(a) For-profit entities in the private sector that have public accountability (as defined in this Standard)<br>(b) The Australian Government and State, Territory and Local Governments<br>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:<br>(a) For-profit private sector entities that do not have public accountability<br>(b) All not-for-profit private sector entities<br>(c) Public sector entities other than the Australian Government and State, Territory and Local Governments.<br>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1. | 1 July 2013 | There is not expected to be any impact on the group from these amendments | 1 July 2013 |

### 3. Summary of significant accounting policies (continued)

#### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Seeing Machines Limited and its subsidiaries (as outlined in note 25) as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

# Notes to the Financial Statements (continued)

### 3. Summary of significant accounting policies (continued)

#### (d) Basis of consolidation (continued)

Investments in subsidiaries held by Seeing Machines Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note (e)).

The difference between the above items and the fair values of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

#### (e) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured, until it is finally settled within equity.

#### (f) Segment Information – refer note 6

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 chief operating decision makers to make decisions about resources to be allocated to the segment and asses its performance and for which discrete financial information is available. Management will also consider 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 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.

A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

# Notes to the Financial Statements (continued)

**3. Summary of significant accounting policies (continued)**

**(g) Foreign currency translation**

*(i) Functional and presentation currency*

Both the functional and presentation currency of Seeing Machines Limited is Australian dollars ($). The United States subsidiaries' functional currency is United States Dollars which is translated to presentation currency (see below).

*(ii) Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*(iii) Translation of Group Companies functional currency to presentation currency*

The results of the United States subsidiary are translated into Australian Dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in the United States subsidiary are taken to the foreign currency translation reserve. If a United States subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

**(h) Cash and cash equivalents – refer note 13**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

**(i) Trade and other receivables – refer note 14**

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

# Notes to the Financial Statements (continued)

**3. Summary of significant accounting policies (continued)**

**(j) Inventories - refer note 15**

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

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

*Raw materials, work in progress and finished goods* – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including the transfer from equity of gains and losses on qualifying cash flow hedges of purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

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

**(k) Property, plant and equipment – refer note 17**

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on the diminishing value or straight line basis using the following depreciation rates of the specific asset as follows:

Office furniture, fittings and equipment – 11.25% to 40%
Research and development software and equipment 33.3%

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*Derecognition*
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

**(l) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*(i) Group as a lessee*
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

# Notes to the Financial Statements (continued)

### 3. Summary of significant accounting policies (continued)

### (m) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Seeing Machines Limited conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

### (n) Intangibles – refer note 18

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the intangible relates. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed at each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

***Research and development costs***

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

# Notes to the Financial Statements (continued)

### 3. Summary of significant accounting policies (continued)

#### (n) Intangibles – refer note 18 (continued)

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

| | Patents and Trademarks | Licences | Development Costs of assets in use |
|---|---|---|---|
| Useful lives | Finite | Finite | Finite |
| Amortisation Method used | 15-20 years – Straight line | 4 – 20 years – Straight line | 5 years – Straight line |
| Internally generated/acquired | Acquired | Acquired | Internally generated |
| Impairment test / Recoverable amount testing | When an indicator of impairment exists | When an indicator of impairment exists | Amortisation method reviewed at each financial year-end; Reviewed annually for indicators of impairment |

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

#### (o) Trade and other payables – refer note 19

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (p) Provisions and employee benefits – refer notes 20 and 21

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

# Notes to the Financial Statements (continued)

**3. Summary of significant accounting policies (continued)**

**(p) Provisions and employee benefits – refer notes 20 and 21 (continued)**

*Employee leave benefits*

***(i) Wages, salaries, annual leave and sick leave***
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured

at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

***(ii) Long service leave***
The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(q) Share-based payment transactions – refer note 27**

The Group provides benefits to employees (including KMP and directors in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

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

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Seeing Machines Limited (market conditions).

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

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

i. The grant date fair value of the award.
ii. The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.
iii. The expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or if otherwise beneficial to the employee, as measured at the date of modification.

# Notes to the Financial Statements (continued)

### 3. Summary of significant accounting policies (continued)

### (q) Share-based payment transactions – refer note 27 (continued)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 11).

### (r) Contributed equity – refer note 22

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (s) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Sale of goods*
Revenue from the sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).
*(ii) Licence fees*
Revenue from licence fees is recognised when there is persuasive evidence, usually in the form of a licence agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer. Licences granted to customers are perpetual licences for use of intellectual property (usually in the form of software) with no further work or processing required by the Group.

*(iii) Rendering of services*
Revenue from the support and consultancy is recognised by reference to the stage of completion of a contract or contracts in progress at reporting date or at the time of completion of the contract and billing to the customer.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract which is determined by a set quotation with the customer. As the contracts are reasonably short, there is only a small amount outstanding at reporting date, as such the level of judgement required is minimal. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

*(iv) Interest revenue*
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### 3. Summary of significant accounting policies (continued)

# Notes to the Financial Statements (continued)

### (t) Income taxes and other taxes – refer note 9

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- when the deductible temporary difference is associated with investments in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

*Other taxes*
Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 3. Summary of significant accounting policies (continued)

# Notes to the Financial Statements (continued)

### (t) Income taxes and other taxes – refer note 9 (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (u) Government grants

Government grants are recognised in the statement of financial position as a liability when the grant is received.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders' equity.

When the grant relates to an asset (development expenditure), the fair value is credited to deferred income and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

### (v) Earnings per share – refer note 11

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (w) Comparatives

Where necessary, comparatives have been reclassified to ensure consistency with current year disclosures.

# Notes to the Financial Statements (continued)

## 4. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short-term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of this policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally forward exchange contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring exposure to interest rate risk and assessment of market forecasts for foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the use of future rolling cash flow forecasts.

Primary responsibility for identification and control of risk rests with the Board. The Board reviews and agrees policies for managing each of its risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency risk, credit allowances and future cash flow forecast projections.

**Risk Exposures and Responses**

*Interest rate risk*
The Group's exposure to market interest rates relates to the Group's short-term cash holdings and cash flow hedges. The Group did not enter into any forward contracts during the 30 June 2012 financial year.

The Group's exposure to interest rate risk is minimal.

At reporting date the Group had the following mix of financial assets exposed to variable interest rates at the designated variable interest rate and are not designated in cash flow hedges:

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| **FOR THE YEAR ENDED 30 JUNE 2012** | **A$** | **A$** |
| **Financial Assets** | | |
| Cash and cash equivalents: | | |
| Exposed to Australian variable interest rate risk | 556,724 | 1,626,561 |
| Exposed to United States of America variable interest rate risk | 21,298 | 22,225 |
| **Total cash and cash equivalents** | 578,022 | 1,648,786 |

# Notes to the Financial Statements (continued)

### 4. Financial risk management objectives and policies (Continued)

*Interest rate risk (continued)*

The Group's policy is to not hedge against interest rate movements as funds held are in cash and short-term deposits. At 30 June, 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax equity and profit would have been affected as follows:

| | Post Tax Profit Higher / (Lower) | | Equity Higher / (Lower) | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **FOR THE YEAR ENDED 30 JUNE 2011** | A$ | A$ | A$ | A$ |
| **Consolidated** | | | | |
| + 1% (100 basis points) | 8,420 | 25,206 | - | - |
| - .5% (50 basis points) | (4,210) | (12,603) | - | - |

The movement in Profit is due to interest rate change on cash balance. The movement in equity is due to the increase/decrease in the fair value of derivative instruments designated as cash flow hedges.

*Foreign currency risk*
As a result of significant sales in the United States and Europe (denominated in those currencies), staffing costs and significant purchases of inventory denominated in United States dollars, the Group's statement of financial position can be affected by movement in exchange rates generally and the US$/A$ exchange rate in particular. The Group seeks to mitigate the effect of its foreign currency exposure by operating US Dollar bank accounts. Approximately 71% of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 70% of costs are denominated in the unit's functional currency.

The Group requires that on specific contracts with a value greater than A$200,000, the contract may be hedged to any level within the amount of the contract. Group policy is that forward exchange contracts are limited to a total of A$2,000,000.

It is the Group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the hedge derivative to exactly match the terms of the hedged item to maximize hedge effectiveness. The Group did not enter into any forward contracts during the 30 June 2012 financial year. Further, for the purpose of settlement of accounts that will likely occur within three months, funds received may be held in a currency other than the unit's functional currency to settle such amounts.

***At 30 June, 2012 the Group had the following exposure to foreign currency that is not designated in cash flow hedges:***

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | A$ | A$ |
| **Financial Assets** | | |
| Cash and cash equivalents (US$) | 181,655 | 125,951 |
| Trade and other receivables (US$) | 1,425,452 | 802,615 |
| Trade and other receivables (EUR) | 124,004 | 230,875 |
| Trade and other receivables (GBP) | - | 40,207 |
| | 1,731,111 | 1,199,648 |
| **Financial Liabilities** | | |
| Trade and other payables (US$) | (13,620) | (204,637) |
| Trade and other payables (GBP) | (33,865) | (30,378) |
| | (47,485) | (235,375) |
| **Net exposure** | 1,683,626 | 964,273 |

# Notes to the Financial Statements (continued)

## 4. Financial risk management objectives and policies (Continued)

*Foreign currency risk (continued)*

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date:

***At 30 June 2012, had the Australian dollar moved against major trading currencies, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:***

| | Post Tax Profit Higher / (Lower) | | Equity Higher / (Lower) | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| FOR THE YEAR ENDED 30 JUNE 2011 | A$ | A$ | A$ | A$ |
| **Consolidated** | | | | |
| AUD / foreign currency +10% | (153,057) | (87,661) | - | - |
| AUD / foreign currency -5% | 88,612 | 50,571 | - | - |

Management believes the reporting date risk exposures are representative of the risk exposure inherent in financial instruments.

*Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in each particular note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognized, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

*Capital management and liquidity risk*

The Group's objective is to raise finance as and when needed by share placement. As at the balance date, the Group has not made use of bank overdrafts or bank loans. Funding may be sought through use of bank overdrafts, bank loans, share placement, finance leases or other credit lines.

The following table reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognized financial assets and liabilities, including derivative financial instruments as of 30 June 2012. For derivative financial instruments the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

# Notes to the Financial Statements (continued)

## 4. Financial risk management objectives and policies (Continued)

***Maturity analysis of financial assets and liabilities based on management's expectation.***

The risk implied from the table below reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as plant, equipment and investments in working capital eg inventories and trade receivables. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Seeing Machines Limited has established risk reporting systems that reflects expectations of management of expected settlement of financial assets and liabilities.

| Year ended 30 June 2012 | <=6 months $ | 6 - 12 months $ | > 1 year $ | Total |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 578,022 | - | - | 578,022 |
| Trade and other receivables | 1,627,314 | - | - | 1,627,314 |
| | 2,205,336 | - | - | 2,205,336 |
| **Consolidated** | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables | 1,486,621 | - | - | 1,486,621 |
| | 1,486,621 | - | - | 1,486,621 |
| **Net inflow** | 718,715 | - | - | 718,715 |

| Year ended 30 June 2011 | <=6 months $ | 6 - 12 months $ | > 1 year $ | Total |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 1,648,786 | - | - | 1,648,786 |
| Trade and other receivables | 1,555,275 | - | - | 1,555,275 |
| | 3,204,061 | - | - | 3,204,061 |
| **Consolidated** | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables | 1,325,671 | - | - | 1,325,671 |
| | 1,325,671 | - | - | 1,325,671 |
| **Net inflow** | 1,878,390 | - | - | 1,878,390 |

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flows.

*Fair value*

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

# Notes to the Financial Statements (continued)

## 5. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

### (a) Significant accounting judgements

*Capitalised development costs*
Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

*Impairment of non-financial assets other than goodwill*
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in the financial period.

*Taxation*
The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

# Notes to the Financial Statements (continued)

### 5. Significant accounting judgements, estimates and assumptions (continued)

### (b) Significant accounting estimates and assumptions

*Impairment of intangible assets and capitalised development costs*
The Group determines whether intangible assets and capitalised development costs are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the intangibles with indefinite useful lives are allocated.

*Share-based payment transactions*
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Hull White method using a trinomial model, with the assumptions detailed in note 27. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

*Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

### 6. Segment information

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

The operating segments are identified by management based on the country of origin. The Group operates in two geographical segments, Australia and United States of America.

Transfer prices between geographical segments are set on an arm’s length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

# Notes to the Financial Statements (continued)

## 6. Segment information (continued)

### (a) Geographical segments

The Group's geographical segments are determined based on the location of the Group's assets.

The following table presents revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2012 and 30 June 2011.

| | Australia | United States | Total |
|---|---|---|---|
| **FOR THE YEAR ENDED 30 JUNE 2012** | **A$** | **A$** | **A$** |
| **Revenue** | | | |
| Sales to external customers | 7,026,528 | 4,825 | 7,031,353 |
| Inter-segment sales | - | 548,468 | 548,468 |
| Total Segment Revenue | 7,026,528 | 553,293 | 7,579,821 |
| Inter-segment elimination | | | (548,468) |
| Total Consolidated Revenue | | | 7,031,353 |
| **Result** | | | |
| Segment results | (1,749,663) | 14,586 | (1,735,077) |
| Profit / (loss) before income tax | (1,749,663) | 14,586 | (1,735,077) |
| Income tax expense | - | - | - |
| Net profit / (loss) for the year | (1,749,663) | 14,586 | (1,735,077) |
| **Assets and Liabilities** | | | |
| Segment Assets | 3,189,500 | 59,953 | 3,249,453 |
| Total Assets | 3,189,500 | 59,953 | 3,249,453 |
| Segment Liabilities | (2,084,262) | (15,042) | (2,099,304) |
| Net Assets | 1,105,238 | 44,911 | 1,150,149 |
| **Other Segment Information** | | | |
| Capital expenditure | (76,547) | (2,717) | (79,264) |
| Depreciation and amortisation | 160,888 | 9,030 | 169,918 |

6.

# Notes to the Financial Statements (continued)

## Segment information (continued)

| FOR THE YEAR ENDED 30 JUNE 2011 | Australia A$ | United States A$ | Total A$ |
|---|---|---|---|
| **Revenue** | | | |
| Sales to external customers | 7,024,749 | - | 7,024,749 |
| Inter-segment sales | - | 308,109 | 308,109 |
| Total Segment Revenue | 7,024,749 | 308,109 | 7,332,858 |
| Inter-segment elimination | | | (308,109) |
| Total Consolidated Revenue | | | 7,024,749 |
| **Result** | | | |
| Segment results | (2,205,408) | 30,457 | (2,174,951) |
| Profit / (loss) before income tax | (2,205,408) | 30,457 | (2,174,951) |
| Income tax expense | - | - | - |
| Net profit / (loss) for the year | (2,205,408) | 30,457 | (2,174,951) |
| **Assets and Liabilities** | | | |
| Segment Assets | 4,529,393 | 32,643 | 4,562,036 |
| Total Assets | 4,529,393 | 32,643 | 4,562,036 |
| Segment Liabilities | (1,883,455) | (4,099) | (1,887,554) |
| Net Assets | 2,645,938 | 28,544 | 2,674,482 |
| **Other Segment Information** | | | |
| Capital expenditure | (239,108) | (27,236) | (266,344) |
| Depreciation and amortisation | 142,435 | 2,114 | 144,549 |

# Notes to the Financial Statements (continued)

## 6. Segment information (continued)

### (b) Segment revenue based on customer location

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographical location based on the location of the customer.

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| FOR THE YEAR ENDED 30 JUNE 2012 | A$ | A$ |
| Australia | 2,520,715 | 585,640 |
| United States | 1,869,293 | 4,827,064 |
| Other foreign countries | 2,641,345 | 1,612,045 |
| Total revenue | 7,031,353 | 7,024,749 |

### (c) Segment revenue based on business units

Revenue from external customers by business units is detailed below. Business units reflect the group's major product streams.

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | A$ | A$ |
| DSS | 4,989,483 | 4,300,715 |
| FaceLAB | 1,601,081 | 2,239,588 |
| faceAPI | 440,789 | 484,446 |
| Other product and services revenue | - | - |
| **Total revenue** | 7,031,353 | 7,024,749 |

## 7. Other Income

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| FOR THE YEAR ENDED 30 JUNE 2012 | A$ | A$ |
| Interest Earned | 33,253 | 88,063 |
| Other | 724,804 | 49,126 |
| Net gain on foreign exchange | 34,816 | - |
| | 792,873 | 137,189 |

Refunds of $702,803 from the Australian Taxation Office were received during the year relating to Research and Development refundable tax offsets. These are included in Other Income, and result from Research and Development expenditure in the 2009-10 financial year. There are no conditions attached to this income.

# Notes to the Financial Statements (continued)

## 8. Expenses

| FOR THE YEAR ENDED 30 JUNE 2012 | Consolidated 2012 A$ | 2011 A$ |
|---|---|---|
| **(a) Other expenses** | | |
| Net loss on foreign exchange | - | 442,078 |
| **Total** | - | 442,078 |
| | | |
| **(b) Depreciation, impairment and amortisation expense** | | |
| Depreciation expense | 125,517 | 103,563 |
| Amortisation expense | 44,401 | 40,986 |
| **Total** | 169,918 | 144,549 |
| | | |
| **(c) Employee benefits expense** | | |
| Wages and salaries | 4,305,154 | 4,149,539 |
| Share-based payment expense | - | (126,522) |
| **Total** | 4,305,154 | 4,023,017 |

# Notes to the Financial Statements (continued)

## 9. Income tax

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| FOR THE YEAR ENDED 30 JUNE 2012 | A$ | A$ |
| **(a) Income tax expense** | | |
| The major components of income tax expense are: | | |
| *Current income tax* | | |
| Current income tax charge | 65,294 | (677,783) |
| Adjustments in respect of current income tax of previous years | (65,294) | (181,045) |
| Taxation loss not recognised | | 858,828 |
| *Deferred income tax* | | |
| Relating to the origination and reversal of timing differences | 104,519 | (374,980) |
| Temporary differences not recognised | (104,519) | 374,980 |
| **Total** | - | - |
| **(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income calculated per the statutory income tax rate** | | |
| A reconciliation between tax expense and the product of the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: | | |
| Total accounting profit / (loss) before income tax | (1,735,077) | (2,174,951) |
| At the parents entity's statutory income tax rate of 30% (2011: 30%) | (520,523) | (652,485) |
| Non-assessable R&D Refundable Tax Offsets | (203,171) | - |
| Research and Development deduction | 667,400 | (107,237) |
| Entertainment | 591 | 646 |
| Share based payments (equity settled) | 7,121 | (42,261) |
| Legal Fees | 9,357 | - |
| Recognition/de-recognition of temporary differences | 104,519 | 122,336 |
| De-recognition of current year tax losses | - | 858,828 |
| Foreign tax rate adjustment | - | 1,218 |
| Adjustments in respect of current income tax of previous years | (65,294) | (181,045) |
| **Total** | - | - |

# Notes to the Financial Statements (continued)

## 9. Income Tax (continued)

| FOR THE YEAR ENDED 30 JUNE 2012 | Consolidated Statement of Financial Position 2012 A$ | 2011 A$ |
|---|---|---|
| **(c) Deferred income tax at 30 June relates to the following:** | | |
| *(i) Deferred tax liabilities* | | |
| Interest receivable | (3,484) | 4,256 |
| Accelerated depreciation: plant and equipment | 10,112 | 9,975 |
| Intangible assets | (5,222) | 45,237 |
| Unrealised FX | (7,122) | - |
| Prepayments | 5,612 | 288 |
| Gross deferred tax liabilities | (102) | 59,756 |
| Set-off deferred tax assets | 102 | (59,756) |
| Net deferred tax liabilities | - | - |

| FOR THE YEAR ENDED 30 JUNE 2012 | Consolidated Statement of Financial Position 2012 | 2011 |
|---|---|---|
| *(ii) Deferred tax assets* | | |
| Equity raising costs | - | 71,918 |
| Unrealised FX | - | 62,611 |
| Provision for Doubtful Debts | 59,122 | 14,399 |
| Accrued expenses | 30,440 | 117,080 |
| Provisions: | | |
| Annual Leave | 6,311 | 101,468 |
| Long Service Leave | 13,853 | 67,260 |
| S. 40-880 Deduction | (5,309) | - |
| Gross deferred tax assets | 104,417 | 434,736 |
| Set-off deferred tax liabilities | 102 | (59,756) |
| Net deferred tax balance not brought to account | (104,519) | (374,980) |
| Tax losses | 3,282,046 | 4,312,411 |
| Losses not recognised | (3,282,046) | (4,312,411) |
| Net deferred tax asset | - | - |

# Notes to the Financial Statements (continued)

### 9. Income Tax (continued)

### (d) Unrecognised temporary differences

At 30 June 2012 Seeing Machines Limited (entity) has unrecognised temporary differences in relation to unbooked tax losses of $10,940,153 (DTA of $3,282,046) for which no deferred tax asset has been recognised on the statement of financial position (2011: Unrecognised tax losses of $14,363,315 and DTA of $4,312,411). These losses are available for recoupment subject to satisfaction of relevant statutory tests. As at 30 June 2012 there are unrecognised deductible temporary differences of $348,397 (DTA of $104,519) for which no deferred tax asset has been recognised on the statement of financial position (2011: unrecognised deductible temporary differences $1,249,387 and DTA of $374,980).

### 10. Dividends paid and proposed

No dividends or distributions have been made to members during the year ended 30 June 2012 and no dividends or distributions have been recommended or declared by the directors in respect of the year ended 30 June 2012.

### 11. Earnings per share

The following reflects the income used in the basic and diluted earnings per share computations:

### (a) Earnings used in calculating earnings per share

| | Consolidated | |
|---|---|---|
| | 2012<br>A$ | 2011<br>A$ |
| *For basic and diluted earnings per share:* | | |
| Net (Loss) Profit | (1,735,077) | (2,174,951) |
| Net (Loss) Profit attributable to ordinary equity holders of the company | (1,735,077) | (2,174,951) |

### (b) Weighted average number of shares

| FOR THE YEAR ENDED 30 JUNE 2012 | 2012<br>Number | 2011<br>Number |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 413,638,879 | 408,908,546 |
| Effect of dilution: | | |
| Share options | - | - |
| Weighted average number of ordinary shares adjusted for effect of dilution | 413,638,879 | 408,908,546 |

There are no instruments (eg share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are un-dilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

# Notes to the Financial Statements (continued)

### 11. Earnings per share (continued)

#### (c) Information on the classification of securities

Options granted to employees (including KMP) as described in note 27 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. These shares have not been included in the determination of basic earnings per share.

### 12. Parent Entity Information

| FOR THE YEAR ENDED 30 JUNE 2012 | 2012<br>A$ | 2011<br>A$ |
|---|---|---|
| Information relating to Seeing Machines Limited | | |
| Current assets | 2,472,482 | 3,728,032 |
| Total assets | 3,189,675 | 4,529,566 |
| Current liabilities | 1,880,297 | 1,723,702 |
| Total liabilities | 2,084,263 | 1,883,455 |
| Issued capital | 15,024,112 | 14,813,612 |
| Accumulated losses | (14,566,959) | (12,815,760) |
| Share based payment reserve | 648,259 | 648,259 |
| Total shareholders' equity | 1,105,412 | 2,646,111 |
| Loss of the parent entity | (1,749,663) | (2,205,408) |
| Total comprehensive income of the parent entity | (1,749,663) | (2,205,408) |

# Notes to the Financial Statements (continued)

## 13. Current Assets – Cash and Cash Equivalents

| | Consolidated 2012 A$ | Consolidated 2011 A$ |
|---|---|---|
| Cash at bank and in hand | 453,373 | 1,534,436 |
| Short-term deposits | 124,649 | 114,350 |
| | 578,022 | 1,648,786 |

**Reconciliation to Cash Flow Statement**
For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

| | 2012 A$ | 2011 A$ |
|---|---|---|
| Cash at bank and in hand | 453,373 | 1,534,436 |
| Short-term deposits | 124,649 | 114,350 |
| | 578,022 | 1,648,786 |

The short term deposits include an amount of $64,350 held as security by the bank against a guarantee for lease rental and is not available for use by the Group**.**

## 14. Current Assets – Trade and Other Receivables

| | Consolidated 2012 A$ | Consolidated 2011 A$ |
|---|---|---|
| Trade receivables | 1,806,899 | 1,545,183 |
| Provision for doubtful debts | (182,158) | (47,995) |
| | 1,624,741 | 1,497,228 |
| Other receivables | - | 43,902 |
| Interest receivable | 2,573 | 14,185 |
| | 1,627,314 | 1,555,315 |

### (a) Allowances for impairment loss

Trade receivables are non-interest bearing and are generally 30-60 days terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $182,158 (2011: $47,995) has been recognised by the Group. See below for movement in the provision for impairment of receivables.

| | Individually Impaired A$ |
|---|---|
| **At 1 July 2010** | **-** |
| Charge for the year | 47,995 |
| Utilised | - |
| Unused amounts reversed | - |
| **As at 30 June 2011** | **47,995** |
| Charge for the year | 182,158 |
| Utilised | (30,000) |
| Unused amounts reversed | (17,995) |
| **As at 30 June 2012** | **182,158** |

# Notes to the Financial Statements (continued)

## 14. Current Assets – Trade and Other Receivables (continued)

### (a) Allowances for impairment loss (continued)

At 30 June 2012, the ageing analysis of trade receivables is as follows:

| FOR THE YEAR ENDED 30 JUNE 2012 | Total | 0 - 30 days Not due | 31 - 60 days Not due | 31 - 60 days PDNI* | 61 - 90 days PDNI* | 91+ days PDNI* | 91+ days PDI |
|---|---|---|---|---|---|---|---|
| 2012 Consolidated | 1,806,899 | 661,184 | 8,783 | 375,427 | 288,853 | 340,494 | 182,158 |
| 2011 Consolidated | 1,545,183 | 784,952 | 45,175 | 10,452 | 241,049 | 415,560 | 47,995 |

Receivables past due but not considered impaired are: Consolidated $891,862 (2011: $667,151). Payment terms on these amounts have not been re-negotiated. Direct contact has been made with relevant debtors and satisfaction has been gained that payment will be received in full. Receivables past due and impaired are $182,158 (2011: $47,995).

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that other balances will be received when due.

### (b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

### (c) Foreign exchange risk

Detail regarding foreign exchange risk exposure is disclosed in note 4.

## 15. Current Assets - Inventories

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | A$ | A$ |
| Raw materials | 57,018 | 275,906 |
| Finished goods | 29,133 | 56,246 |
| Total | 86,151 | 332,152 |

### (a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2012 totaled $1,442,366 (2011: $1,682,859) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

## 16. Other Current Assets

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | A$ | A$ |
| Prepayments | 222,139 | 199,341 |
| **Total** | **222,139** | **199,341** |

# Notes to the Financial Statements (continued)

### 17. Non-current Assets – Property, Plant and Equipment

#### (a) Reconciliation of carrying amounts at the beginning and end of the year

| CONSOLIDATED | Office Furniture, Fittings and Equipment A$ | Research and Development Software and Equipment A$ | Total A$ |
|---|---|---|---|
| **At 1 July 2011 net of accumulated depreciation and impairment** | 315,183 | 43,717 | 358,900 |
| Additions | 14,766 | 8,105 | 22,871 |
| Depreciation charge for the year | (104,952) | (20,565) | (125,517) |
| **At 30 June 2012 net of accumulated depreciation and impairment** | 224,997 | 31,257 | 256,254 |
| **At 30 June 2012** | | | |
| Cost | 973,881 | 219,639 | 1,193,520 |
| Accumulated depreciation and impairment | (748,884) | (188,382) | (937,266) |
| **Net carrying amount** | 224,997 | 31,257 | 256,254 |

| CONSOLIDATED | Office Furniture, Fittings and Equipment A$ | Research and Development Software and Equipment A$ | Total A$ |
|---|---|---|---|
| **At 1 July 2010 net of accumulated depreciation and impairment** | 214,204 | 12,831 | 227,035 |
| Additions | 187,651 | 47,777 | 235,428 |
| Depreciation charge for the year | (86,672) | (16,891) | (103,563) |
| **At 30 June 2011 net of accumulated depreciation and impairment** | 315,183 | 43,717 | 358,900 |
| **At 30 June 2011** | | | |
| Cost | 959,115 | 211,534 | 1,170,649 |
| Accumulated depreciation and impairment | (643,932) | (167,817) | (811,749) |
| **Net carrying amount** | 315,183 | 43,717 | 358,900 |

# Notes to the Financial Statements (continued)

### 18. Non-current Assets – Intangible Assets and Development Costs

#### (a) Reconciliation of carrying amounts at the beginning and end of the year

| CONSOLIDATED | Development Costs A$ | Patents, Licences and Trademarks A$ | Total A$ |
|---|---|---|---|
| **At 1 July 2011 net of accumulated amortisation** | - | 467,582 | 467,582 |
| Additions | - | 56,392 | 56,392 |
| Amortisation | - | (44,401) | (44,401) |
| **At 30 June 2012 net of accumulated amortisation** | - | 479,573 | 479,573 |
| | | | |
| **At 30 June 2012** | | | |
| Cost | - | 754,313 | 754,313 |
| Accumulated amortisation | - | (274,740) | (274,740) |
| **Net carrying amount** | - | 479,573 | 479,573 |

| CONSOLIDATED | Development Costs A$ | Patents, Licences and Trademarks A$ | Total A$ |
|---|---|---|---|
| **At 1 July 2010 net of accumulated amortisation** | - | 477,652 | 477,652 |
| Additions | - | 30,916 | 30,916 |
| Amortisation | - | (40,986) | (40,986) |
| **At 30 June 2011 net of accumulated amortisation** | - | 467,582 | 467,582 |
| | | | |
| **At 30 June 2011** | | | |
| Cost | - | 697,921 | 697,921 |
| Accumulated amortisation | - | (230,339) | (230,339) |
| **Net carrying amount** | - | 467,582 | 467,582 |

#### (b) Description of Group's intangible assets

*(i) Development costs*

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. Development costs represent costs incurred in the development phase of internal projects to bring the Group's products to sale. This intangible asset has been assessed as having a finite useful life and is amortised over a period of five years. Amortisation commences once the product is available for sale and future economic benefits from development can arise. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

# Notes to the Financial Statements (continued)

### 18. Non-current Assets – Intangible Assets and Development Costs (continued)

*(ii) Patents, licenses and trademarks*
Patents, licences and trademarks have been acquired and are carried at cost. These intangible assets have been determined to have useful lives between 4 and 20 years and are amortised using the straight line method over the relevant period. Patents, licences and trademarks are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

#### (c) Impairment losses recognised

*(i) Continuing operations*
No impairment losses were recognised in the year to 30 June 2012.

### 19. Current Liabilities – Trade and Other Payables

| | Consolidated | |
|---|---|---|
| | 2012 A$ | 2011 A$ |
| Trade payables | 381,515 | 524,804 |
| Other payables | 1,105,106 | 800,867 |
| **Total** | **1,486,621** | **1,325,671** |

#### (a) Fair value
Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

#### (b) Foreign exchange, interest rate and liquidity risk
Information regarding foreign exchange, interest rate and liquidity risk exposure is set out in Note 4.

### 20. Current Liabilities – Provisions

| | Consolidated | |
|---|---|---|
| | 2012 A$ | 2011 A$ |
| Annual Leave | 358,717 | 337,682 |
| Long service leave | 50,000 | 64,447 |
| **Total** | **408,717** | **402,129** |

#### (a) Nature and timing of provisions
Refer to Note 3(p) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of the provisions.

### 21. Non-current Liabilities – Provisions

| | Consolidated | |
|---|---|---|
| | 2012 A$ | 2011 A$ |
| Long service leave | 203,966 | 159,754 |
| **Total** | **203,966** | **159,754** |

#### (a) Nature and timing of provisions
Refer to note 3(p) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of the provision.

# Notes to the Financial Statements (continued)

## 22. Contributed Equity

| FOR THE YEAR ENDED 30 JUNE 2012 | Consolidated 2012 A$ | Consolidated 2011 A$ |
|---|---|---|
| Ordinary shares | 15,024,112 | 14,813,612 |
| | 15,024,112 | 14,813,612 |

| | Consolidated 2012 | Consolidated 2011 |
|---|---|---|
| **(a) Ordinary shares** | | |
| Issued and fully paid | 413,638,879 | 408,908,546 |

Fully paid shares carry one vote per share and carry the right to dividends.

| | Shares | A$ |
|---|---|---|
| **At 1 July 2010** | 405,814,407 | 14,664,487 |
| Share issue | 3,094,139 | 149,125 |
| Transaction costs | - | - |
| **At 30 June 2011** | 408,908,546 | 14,813,612 |
| Share issue | 4,730,333 | 210,500 |
| Transaction costs | - | - |
| **At 30 June 2012** | 413,638,879 | 15,024,112 |

## 23. Retained Earnings and Reserves

### (a) Movements in Retained earnings and reserves

Refer to the Statement of Changes in Equity for movements in retained earnings (accumulated losses) and other reserves.

### (b) Nature and purpose of reserves

*Foreign currency translation reserve*

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

*Employee equity benefits reserve*

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 27 for further details of the plan.

# Notes to the Financial Statements (continued)

## 24. Cash Flow Statement Reconciliation

| FOR THE YEAR ENDED 30 JUNE 2012 | Consolidated 2012 A$ | Consolidated 2011 A$ |
|---|---|---|
| **(a) Reconciliation of net profit / (loss) after tax to net cash flows from operations** | | |
| Net profit / (loss) | (1,735,077) | (2,174,950) |
| Depreciation | 125,517 | 103,563 |
| Amortisation | 44,401 | 40,986 |
| Net loss on foreign exchange (unrealised) | 4,607 | 188,194 |
| Share-based payments | 23,735 | (126,522) |
| Doubtful Debts Expense | 182,158 | 47,995 |
| *Changes in assets / liabilities* | | |
| (Increase) / decrease in inventories | 246,001 | (3,090) |
| (Increase) / decrease in trade and other receivables | (72,039) | (238,841) |
| (Increase) / decrease in other assets | (22,798) | (168,502) |
| (Decrease) / increase in provisions | 50,800 | 143,154 |
| (Decrease) / increase in trade and other payables | 160,950 | 198,190 |
| **Net cash used in operating activities** | (991,744) | (1,989,824) |
| **(b) Non-cash financing activities** | | |
| Issue of shares under Executive Share Plan | 210,500 | 149,125 |

## 25. Related Party Disclosure

### (a) Subsidiary

The consolidated financial statements include the financial statements Seeing Machines Limited and subsidiary details as follows:

| Name | Country of Incorporation | % Equity Interest 2012 | % Equity Interest 2011 | Investment (A$) 2012 | Investment (A$) 2011 |
|---|---|---|---|---|---|
| Seeing Machines Incorporated | United States | **100%** | **100%** | **770,307** | **770,307** |

Seeing Machines Incorporated was incorporated in Delaware, United States on 21 April 2008.

### (b) Key management personnel

Details relating to key management personnel, including remuneration paid are included in note 26.

# Notes to the Financial Statements (continued)

### 25. Related Party Disclosure (continued)

#### (c) Transactions with related parties

In 2011, Seeing Machines Limited (the parent entity) converted an intercompany loan in its subsidiary, Seeing Machines Inc. to equity as per note 25(a) above. In 2012, Seeing Machines Limited paid Seeing Machines Inc. an amount of $548,468 (2011: $308,109) for provision of services. The services include consultancy and agency commission and transactions were made at arm's length at normal market price and on commercial terms.

#### (d) Director-related transactions

#### i) Shareholdings of Directors

**Shares in Seeing Machines Limited**

| 30 June 2012 | Balance 01 July 11 | Granted as Remuneration | On Exercise of options | Net change other | Balance 30 June 12 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| T Winters | - | - | - | - | - |
| K Kroeger | - | - | - | - | - |
| D Gaul[1] | 2,020,948 | 134,831 | - | - | 2,155,779 |
| W Mobbs[2] | 793,785 | 3,227,527 | - | - | 4,021,312 |
| R Sale[3] | 5,487,808 | 259,662 | - | - | 5,747,470 |
| T Victor | 236,236 | 134,831 | - | - | 371,067 |
| A Zelinsky | 21,448,632 | - | - | - | 21,448,632 |
| **Total** | **29,987,409** | **3,756,851** | **-** | **-** | **33,744,260** |

| 30 June 2011 | Balance 01 July 10 | Granted as Remuneration | On Exercise of options | Net change other | Balance 30 June 11 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| J F Muir | - | 125,786 | - | | 125,786 |
| N Cerneaz | 1,467,332 | 581,712 | - | | 2,049,044 |
| D Gaul | 1,834,800 | 186,148 | - | | 2,020,948 |
| W Mobbs | 400,704 | 393,081 | - | | 793,785 |
| R Sale | 5,115,512 | 372,296 | - | | 5,487,808 |
| T Victor | 50,088 | 186,148 | - | | 236,236 |
| A Zelinsky | 21,448,632 | - | - | | 21,448,632 |
| **Total** | **30,317,068** | **1,845,171** | **-** | | **32,162,239** |

**Notes**

1. D Gaul holds 2,155,799 shares through Jaiclimb Pty Limited.
2. W Mobbs holds shares in the name of William Mobbs ATF The Bilbo Super fund.
3. Rob Sale's shares are 2,745,715 shares held in the name of Caffe Pty Ltd ATF the R C Sale Superannuation Fund and 2,621,369 shares held by Rob's wife Paula Kay Sale and 380,386 held in his own name.

# Notes to the Financial Statements (continued)

### 25. Related Party Disclosure (continued)

### (d) Director-related transactions (continued)

### ii) Other Director related transactions

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

### 26. Key management personnel

### (a) Details of Key Management Personnel

### i) *Directors*

| | |
|---|---|
| Terry Winters | Chairman – from 16 April 2012 |
| Bill Mobbs | Chairman - resigned 31 December 2011 |
| Ken Kroeger | Managing Director & CEO |
| Rob Sale | Director (non-executive) |
| David Gaul | Director (non-executive) |
| Trent Victor | Director (non-executive) – resigned 30 September 2012 |
| Alexander Zelinsky | Director (non-executive) |

### ii) *Executives*

| | |
|---|---|
| Belinda Burgess | Operations Manager |
| Nick Langdale-Smith | Sales and Marketing Director |
| Jochen Heinzmann | DSS Product Manager |
| Tim Edwards | Principal Engineer |
| Sebastian Rougeaux | Principal Research Scientist |
| Paul Johnson | Global Sales Director |

Jennifer Barnes resigned her position as Chief Finance Officer on 4 July 2012. John Capehart was dismissed from his position as VP DSS Sales in April 2012.

### (b) Compensation for Key Management Personnel

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | A$ | A$ |
| Short-term employee benefits | 1,258,844 | 1,492,778 |
| Post-employment benefits | 102,724 | 241,000 |
| Termination benefits | - | - |
| Share-based payments and executive share plan | 118,750 | 208,625 |
| **Total** | **1,480,318** | **1,942,403** |

# Notes to the Financial Statements (continued)

## 27. Share-based payment plans

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

The expense recognised for employee services received during the year is shown in the table below:

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | A$ | A$ |
| Expense arising from equity-settled share-based payment transactions | - | (126,522) |
| **Total expense arising from share-based payment transactions** | **-** | **(126,522)** |

### (b) Type of share-based payment plan

***Employee Share Option Scheme (ESOS)***

Eligible employees are invited to participate in the ESOS from time to time. The exercise price for each option is equal to the market value of the shares on the date of the invitation to apply for Options.

Most of the options on issue at the end of the year ended 30 June 2005 were under the previous ESOS (old ESOS) which remains active. Under this scheme options vest in tranches based on the completion of one year, two years and three years service with no performance criteria.

Options were also granted to the CEO and the Operations Manager, vested in tranches on the completion of one, two and three years of service and additionally based on the success of the IPO (SM ESOS). These options were issued under the old ESOS, with vesting conditions as noted.

Further, options granted to ANU researchers vest on the basis of project milestones and these options were not issued under an ESOS scheme (ANU ESOS).

No further options have been granted under the old ESOS, SM ESOS or ANU ESOS during the year.

A further scheme (new ESOS) was implemented on 28 June 2006 and options granted under this scheme are included in the total of options outstanding as at the date of the report. These options were granted on, or after, 1 July 2006. The basis of this plan is that:

- Options are granted with an exercise price equal to, or greater than, the market value of the shares at grant date;
- 50% of options vest after 18 months and the remaining 50% after 3 years
- 50%-100% of options are subject to performance hurdles based on company financial performance.

The contractual life of options granted under the old ESOS, the SM ESOS and ANU ESOS varies with all options expiring on 30 June 2010 and under the new ESOS the life is seven years. There are no cash settlement alternatives for the schemes. There were no options granted, under new ESOS, in the year to 30 June.

# Notes to the Financial Statements (continued)

## 27. Share-based payment plans (continued)

### (c) Summaries of options granted under ESOS

| FOR THE YEAR ENDED 30 JUNE 2012 | 2012 No. | 2012 WAEP (cents) | 2011 No. | 2011 WAEP (cents) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 615,415 | - | 6,510,592 | - |
| Granted during the year | - | - | - | - |
| Forfeited during the year | - | - | (5,895,177) | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| **Outstanding at the end of the year** | 615,415 | 8.44 | 615,415 | 8.44 |
| Exercisable at the end of the year | 615,415 | | 615,415 | |

The outstanding balance at the end of the year is represented by:

- 615,415 options over ordinary shares with an exercise price of 8.44 cents each, exercisable upon meeting the above conditions (new ESOS) and until 1 July 2013;

### (d) Weighted average remaining contractual life

The weighted average remaining contractual life for share options outstanding at 30 June 2012 is 1 year (2011: 2 years).

### (e) Range of exercise price

The exercise price for all options outstanding at 30 June 2012 was 8.44 cents (2011: 8.44 cents).

### (f) Weighted average fair value

There were no options granted during the current year or prior year.

### (g) Option pricing model: ESOS

The fair value of the equity-settled share options granted under the new ESOS is estimated as at the grant date using the Hull White method using a trinomial lattice model taking into account the terms and conditions upon which the options were granted.

# Notes to the Financial Statements (continued)

### 27. Share-based payment plans (continued)

### (g) Option pricing model: ESOS (continued)

The following table lists the inputs to the model used for the year ended 30 June 2009 the last year in which options were issued:

| | Grant 5 January 2009 |
|---|---|
| Share price at grant date (cents) | 3.70 |
| Option exercise price (cents) | 6.49 |
| Risk free interest rate (%) | 2.00 |
| Expected life of option (years) | 6.9 |
| Dividend yield (%) | 0 |
| Exercise multiple | 2.2 |
| Volatility (%) | 215 |

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on expected exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future. The expected volatility was determined using AIM indices for similar industries. The expected volatility therefore reflects the assumption that the chosen industry volatilities will be similar to that of Seeing Machines Limited, which may also not necessarily be the actual outcome.

### 28. Commitments

### (a) Leasing commitments

*Operating lease commitments – Group as lessee*
The Group has two operating leases on property in Australia. One lease has a remaining term less than a year and will not be renewed.

Future minimum rental payments under non-cancellable operating leases as at 30 June are as follows:

| | Consolidated | |
|---|---|---|
| | 2012 A$ | 2011 A$ |
| Within one year | 290,261 | 337,355 |
| After one year but not more than five years | 104,949 | 453,744 |
| **Total** | **395,210** | **791,099** |

*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.

### 29. Contingencies

### (a) Contingent asset relating to R&D Refundable Tax Offsets

A contingent asset exists with respect to refundable tax offsets under the Government R&D scheme. The value of this asset has not been brought to account as its realisation is dependent on assessments by AusIndustry and the Australian Taxation Office. The estimated value of this claim for 2011-12 is approximately A$2.22 million, resulting in estimated refundable offsets of A$1.00 million, which will be brought to account as income when received. This is expected to be in the 2012-13 financial year.

# Notes to the Financial Statements (continued)

### 30. Events after the reporting date

Subsequent to the end of the financial year the Group has undertaken capital raising activities which were finalised 19 October 2012. Funds raised from this round totaled $A1.996 million. Additional capital raising activities are planned in the new calendar year, but no firm estimate of the value of this activity has been made.

Following the year end, Research and Development expenditure claims have been finalised and submissions will be lodged with AusIndustry. As a result, and subject to assessment by AusIndustry and the Australian Taxation Office, refundable tax offsets totaling $1,001,099 are expected to be received in late November 2012.

### 31. Auditor's remuneration

The auditor of Seeing Machines Limited is Ernst & Young.

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | A$ | A$ |
| **Amounts received or due and receivable by Ernst & Young (Australia) for:** | | |
| • An audit or review of the financial report of the entity and any other entity in the consolidated group | 84,980 | 65,650 |
| • Other services in relation to the entity and any other entity in the consolidated group: | | |
| - Tax compliance | 20,845 | 11,810 |
| | 105,825 | 77,460 |

# Directors' Declaration

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

1. In the opinion of the directors:

   (a) The financial statements and notes of the consolidated entity is in accordance with the *Corporations Act 2001*, including:

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

      (ii) Complying with Accounting Standards (including Australian Accounting Interpretations) and *Corporations Regulations 2001*.

   (b) The financial statements and notes comply with the international financial reporting standards as disclosed in note 3 (a); and

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

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Regulations 2001 for the financial year ending 30 June 2012.

On behalf of the Board

Chairman

Canberra, 25 October 2012

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Canberra ACT 2600 Australia
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# Independent auditor's report to the members of Seeing Machines Limited

## Report on the financial report

We have audited the accompanying financial report of Seeing Machines Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

### *Opinion*

In our opinion:

a. the financial report of Seeing Machines Limited is in accordance with the *Corporations Act 2001*, including:

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

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 3(b)

Ernst & Young

Ernst & Young

James Palmer

James Palmer
Partner
Canberra
25 October 2012