



A.B.N 34 093 877 331

SEEING MACHINES LIMITED

FINANCIAL REPORT

HALF YEAR ENDED

31 DECEMBER 2005



SEEING MACHINES LIMITED HALF YEAR REPORT
A.B.N 34 093 877 331

Director's Report

Your directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

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

James Fulton Muir, AO	Non Executive Chairman
David Gaul	Non Executive Director
Rob Sale	Non Executive Director
Trent Victor	Non Executive Director
Alex Zelinsky	Non Executive Director
Anthony Kinnear	Non Executive Director
Nicholas Cerneaz	Executive Director (appointed 6 October 2005)

REVIEW AND RESULTS OF OPERATIONS

Review of 1st Half of Our Sixth Year of Operations

The first half of the 2006 financial year was one of achieving many of the goals that will provide the foundation for the ongoing development and growth of Seeing Machines.

The success of the Company's IPO in December 2005 means that we have secured the capital that will enable us to significantly progress the Company's research and development and commercialisation activities fundamental to the strategy to deploy our computer vision technology into new markets and generate diversified revenue streams.

Operational highlights for the half-year included:

- Obtained £1.65 million / A\$3.8m in IPO funds through the AIM listing;
- faceLAB™ 4.2 released and sales of over A\$1.1 million for the half-year;
- Completion of a number of scientific trials for the Glaucoma diagnostic device including T5 which validated the scientific method underpinning the device;
- Completion of the 1st clinical trial at the Canberra Eye Hospital for the Glaucoma diagnostic device which demonstrated that the technology successfully detects the loss of the visual field associated with glaucoma and successfully differentiates between those patients with visual field loss and those without, thus providing the basis for a reliable and accurate diagnostic instrument;
- Significant progress on the prototype driver monitoring system for the automotive Original Equipment Manufacturer (OEM) market with Hella AG;
- Agreement with Schlumberger to conduct a field trial of the Fatigue Detection System;
- First sales of the Noah Basketball System; and,
- Notice from the US Patent Office that Seeing Machines core patent on Facial Image Processing was allowed;



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Director's Report (cont'd)

Financial Results

Total revenue for the half year to December 31 2005 was A\$1.345 million, A\$162,452 higher than the period to 31 December 2004 (A\$1.182 million). The increase in revenue is due to increased sales of faceLAB™ to A\$1.152 million up by A\$408,809 on the prior year (A\$0.744 million). This increase in faceLAB™ sales follows three releases of the product (versions 4, 4.1 and 4.2) since August 2004. A reduction in other income of A\$248,551 is due to the accounting treatment of government grants for capitalized R&D.

Net expenditure for the half year was A\$1.432 million down by A\$129,000 on the prior year (A\$1.561 million), reflecting management's tight control of expenditure during the period. The cost of goods sold has increased in line with the increase in faceLAB™ sales. Research and development continued to be a significant area of investment, particularly the glaucoma and automotive projects which have both made significant progress during the half year. A significant amount of the investment in R&D has been capitalized and is therefore not identified in expenditure. The costs of the IPO in December 2005 have been offset against equity and are therefore not reflected in expenditure.

As a result of the introduction of the A-IFRS (International Financial Reporting Standards) the company has had to recognize an expense for share based payments in relation to employee share options.

The loss for the half year to 31 December 2005 was a loss of A\$.087 million compared to a loss of A\$0.379 million for the half year to 31 December 2004. The company expects losses to continue for the year to 30 June 2006. No interim dividend had been declared on the ordinary shares (2004 - nil).

The Company had A\$3.126 million in cash at 31 December 2005 compared to A\$299,462 at 31 December 2004. Net assets increased to A\$3,851,615 at 31 December 2005 compared to A\$425,721 as at 31 December 2004.



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Director's Report (cont'd)

Operational Highlights

faceLAB

In August 2005 we released faceLAB™ 4.2 which includes:

- New, small form factor digital camera support;
- Improved laptop support;
- Improved gaze accuracy and quality; and
- Improved Graphical User Interface (GUI) support.

During the first half of 2006 we will release a version which adds "Scene camera" functionality to the product - an ability to embed a live video-feed of the subject's actual view into the data feed from the device. We have also commenced development of a major new feature that will greatly expand the field of view of the device by allowing any configuration and space to be monitored no matter how spatially complex.

Medical Devices

Significant progress has been made on our project to develop the world's first non-contact objective device for detecting and managing glaucoma. This project was commenced in FY2005 and during the first half of FY2006 we have completed a number of scientific trials which demonstrated that the fundamental technology could detect glaucoma in patients with known disease. A clinical trial completed at the end of 2005 showed that the device could discriminate between those patients with and those without glaucoma.

We have a busy 2nd half of the year with the start of a much larger clinical trial, industrial design work for the production device, further software development and the preparation work required for regulatory approvals.

We remain on track for the product to be launched in 2007.

Automotive

Our project with German Tier -1 supplier Hella to develop a commercial grade fatigue detection device has made very good progress and the results of the project are being evaluated by a major automotive manufacturer who is currently examining the feasibility from a marketing and production perspective of including the fatigue device in its cars.

We reached agreement with oil field services company Schlumberger to trial the driver state sensing technology in their transport fleet to allow them to evaluate the technology prior to potentially rolling-out the technology across their fleet.

We have also progressed projects in Australia with National ICT Australia (NICTA) to develop a new measure to detect fatigue and also with the Co-operative Research Centre for Advanced Automotive Technology (AutoCRC) on vision based collision avoidance.

Sports

In FY2005 we signed a licensing agreement with Pillar Vision in the US for the use of our technology in their basketball training device Noah Select. During the first half of FY2006 the first shipments of the Noah product were made to customers and Pillar expects to ship significant numbers of the product in the coming years which will result in an ongoing revenue stream for Seeing Machines.



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Director's Report (cont'd)

New Markets

The business model pursued with Pillar Vision (licensed access to our technology as an enabler in OEM products) is being developed further in other industries and applications. To facilitate this we have commenced work on a project to enable us to make the core technology available through an easy to use interface so that it can be used by application developers. We have had strong interest from a large player in the games industry and a company in the computer industry renowned for its innovation. We will continue to pursue both of these opportunities through the 2nd half of the year.

Patents

In August 2005 the company was advised by the US Patents and Administration that its application to patent its core facial image processing technology was to be allowed.

In November 2005 the company filed a new patent application relating to the robust tracking of subjects wearing eye glasses. This will be a key patent for the company and robust tracking of subjects wearing eye glasses is fundamental to having an acceptable solution for many applications of the core Seeing Machines technology particularly those in the automotive industry.

Staff

Dr Nick Cerneaz took over from Tony Kinnear as Chief Executive in September 2005.

Paul Day joined the company in October 2005 as Development Manager and Technical Architect for the glaucoma project.

Funding

The company achieved a significant milestone in December 2005 when it completed a listing on the Alternative Investment Market (AIM) of the London Stock Exchange. The company raised £1.65 million /A\$3.8 million in funds that will be primarily used to progress key projects.



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Director's Report (cont'd)

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
(James) Fulton Muir AO	<p>Chairman</p> <p>Mr Muir has a distinguished career in banking, government and international relations. He has held senior positions in major Australian banks, including Westpac and St George. He has been the New South Wales State Government Commissioner for North America, and also economic adviser to the Chief Minister of Australian Capital Territory Government. He is a Director of several companies and also holds several roles with the Australian National University, including Member of the University Council and Chair of Finance Committee. Fulton was appointed an Officer of the Order of Australia (AO) for Services to Commerce and the Community in 1992.</p>
David Gaul	<p>Non-executive director</p> <p>Mr Gaul is co-founder and 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 has over 20 years experience in high-tech commercialism. David is a founding fellow of the Australian Institute of Company Directors. David is the uncle of Seeing Machines co-founder, Tim Edwards.</p> <p><i>Appointed: 24 August 2004</i></p>
Rob Sale	<p>Non-executive director</p> <p>Mr Sale 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. CSIRO is one of Australia's largest and most diverse scientific and research organisations.</p>
Trent Victor B. Sc, M. Sc.	<p>Non-executive director</p> <p>Mr Victor is a senior specialist in the Driver Awareness product area at Volvo Technology. Volvo Technology is a research and innovation company in the Volvo Group of companies where new technologies, products and businesses are developed. Trent is involved in research, innovation, and product development for driver awareness products, such as drowsiness alert, distraction alert, interaction support (workload management), attention-sensitive driving support, impairment detection, and distraction evaluation tools. Trent is 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.</p>



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Director's Report (cont'd)

Dr Alex Zelinsky

Non-executive director

Ph.D., Bmath., SMIEEE, FTSE

Prior to co-founding Seeing Machines Alex was Professor and Head of the Department of Systems 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 outstanding personal commitment over an extended period of time to successful innovation involving the application of science and technology for the benefit of Australia.

Anthony Kinnear

Non-executive director

BA (Hons) LLB

Prior to joining Seeing Machines in September 2004, Anthony was Chief Executive Officer of SoftLaw Corporation, an Australian technology company that provides expert systems software and related services to government markets. Anthony led the company through a major phase in its commercial and corporate development, including its listing on the Australian Stock Exchange in December 2001, successfully establishing international operations in London and Washington D.C, and negotiating major technology licensing contracts with government agencies in Australia and the United Kingdom. Prior to this, Anthony also enjoyed a seven year career with Reed Elsevier plc in the Asia Pacific region, ultimately as the Chief Executive of LexisNexis Australia and, concurrently, Regional Director of the New Zealand and Asian operations of the business.

Appointed: 29 September 2004

Ceased to be Executive Director from 5 September 2005

Dr Nicholas Cerneaz

Executive director

B.Sc., B.E.(Hons), D.Phil

Nick joined Seeing Machines in 2005 to take responsibility for the commercialisation of the company's glaucoma diagnostic technology. Nick brings to Seeing Machines significant industry experience developing and commercializing medical software and devices. Most recently Nick was the Chief Operations Officer and formerly Vice President of Engineering at Mirada Solutions Limited an Oxford UK based medical software company spun out from Oxford University in 1997. Nick was instrumental in building Mirada from its start-up origins through to a trade sale to CTI Molecular Imaging, which was itself acquired by Siemens Medical Systems, Inc in 2005.

Appointed: 6 October 2005



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Director's Report (cont'd)

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 services	A\$8,000
Accounting advice	A\$15,000

Signed at Canberra this 14th day of March 2006 in accordance with a resolution of the directors made pursuant to section 306(3) of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read "Fulton Muir".

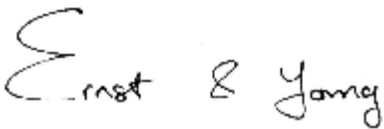
Fulton Muir
Chairman

A handwritten signature in black ink, appearing to read "Nick Cemeaz".

Nick Cemeaz
Chief Executive Officer
and Director

Auditor's Independence Declaration to the Directors of Seeing Machines Limited

In relation to our review of the financial report of Seeing Machines Limited for the half-year ended 31 December 2005, 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



James Palmer
Partner
Canberra
14 March 2006



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Condensed Income Statement

HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	31 DECEMBER 2005 A\$	31 DECEMBER 2004 A\$
Revenue	2	1,166,578	755,485
Cost of sales		(353,674)	(284,401)
Gross Profit		812,904	471,084
Other income	2	178,434	426,985
Other expenses		(1,016,521)	(1,241,372)
LOSS BEFORE FINANCE AND INCOME TAX COSTS		(25,183)	(343,303)
Finance costs		(61,895)	(35,355)
LOSS BEFORE INCOME TAX		(87,078)	(378,658)
Income tax expense		-	-
NET LOSS AFTER TAX		(87,078)	(378,658)
NET LOSS AFTER TAX ATTRIBUTABLE TO THE MEMBERS OF SEEING MACHINES LIMITED		(87,078)	(378,658)
Earnings per share (cents per share)			
- Basic for loss for the half year		(0.0017)	(50.05)
- Diluted for loss for the half year		(0.0017)	(50.05)



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Condensed Balance Sheet

AS AT 31 DECEMBER 2005

	Notes	AS AT 31 DECEMBER 2005 A\$	AS AT 30 JUNE 2005 A\$
CURRENT ASSETS			
Cash and cash equivalents		3,126,142	663,213
Trade and other receivables		550,857	292,396
Inventories		97,878	99,099
Other		7,045	485,718
TOTAL CURRENT ASSETS		3,781,922	1,540,426
NON-CURRENT ASSETS			
Property, plant and equipment		144,671	174,335
Intangible assets		556,194	225,107
Other		2,635	2,454
TOTAL NON-CURRENT ASSETS		703,500	401,896
TOTAL ASSETS		4,485,422	1,942,322
CURRENT LIABILITIES			
Trade and other payables		537,563	935,048
Deferred revenue		-	10,454
Provisions		72,989	96,242
TOTAL CURRENT LIABILITIES		610,552	1,041,744
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings		-	471,526
Provisions		23,255	3,331
TOTAL NON-CURRENT LIABILITIES		23,255	474,857
TOTAL LIABILITIES		633,807	1,516,601
NET ASSETS		3,851,615	425,721
EQUITY			
Contributed equity	3	6,550,345	3,394,946
Accumulated losses		(3,107,369)	(3,020,291)
Other reserves		408,639	51,066
TOTAL EQUITY		3,851,615	425,721



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Condensed Cash Flow Statement

HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	31 DECEMBER 2005 A\$	31 DECEMBER 2004 A\$
CASH FLOWS FROM /(USED IN) OPERATING ACTIVITIES			
Receipts from customers		974,864	521,743
Grants received		175,776	426,985
Payments to suppliers and employees		(953,795)	(1,322,877)
Interest received		13,916	11,632
Finance costs paid		(83,421)	(84,645)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		127,340	(447,162)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of plant and equipment		(15,802)	(51,186)
Payments for intangible assets		(19,859)	(83,978)
Payments for research and development costs		(334,149)	-
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(369,810)	(135,164)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of options		16,373	-
Issue of shares		3,848,550	-
Costs of listings on AIM		(1,159,524)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		2,705,399	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,462,929	(582,326)
Cash and cash equivalents at beginning of period		663,213	881,788
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5	3,126,142	299,462



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Condensed Statement of Changes in Equity

HALF-YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the company			
	Issued Capital A\$	Accumulated Losses A\$	Employee Equity Benefits Reserve A\$	Total Equity A\$
At 1 July 2004	2,295,146	(1,796,383)	37,960	536,723
Loss for the period	-	(378,658)	7,279	(371,379)
At 31 December 2004	2,295,146	(2,175,041)	45,239	165,344
	Issued Capital A\$	Accumulated Losses A\$	Employee Equity Benefits Reserve A\$	Total Equity A\$
At 1 July 2005	3,394,946	(3,020,291)	51,066	425,721
Profit for the period	-	(87,078)	-	(87,078)
Exercise of options	16,373	-	-	16,373
Issues of ordinary shares during the half-year:				
Issue of share capital	3,848,550	-	-	3,848,550
Transaction costs	(1,159,524)	-	-	(1,159,524)
Conversion of Convertible Notes	450,000	-	-	450,000
Cost of share-based payment	-	-	357,573	357,573
At 31 December 2005	6,550,345	(3,107,369)	408,639	3,851,615



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Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the company as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Seeing Machines Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Company under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005;
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.



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Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies

(i) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Plant and equipment, computer software, furniture & fittings, and plant and equipment used exclusively for research & development, are depreciated so as to write off the cost of each asset over its expected useful life. The diminishing value method or the straight line method of depreciation is used for each asset class as deemed appropriate by the directors.

Management have determined that the depreciation and amortisation rates to be applied against plant and equipment during the period are as follows:

	2005	2004
Leased computers	N/A	37.5%
Computer software	40%	40%
Furniture and fittings	7.5% - 37.5%	7.5% - 37.5%
Plant and equipment	7.5% - 50%	7.5% - 50%
Low Value Pool	37.5%	37.5%
R & D Equipment	33.3%	33.3%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.



Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies

(iii) Intangible assets

Patent, trademarks and licences

Patents, trademarks and licences acquired separately are capitalised at cost. The useful lives of patents, trademarks and licences are assessed to be finite. Where amortisation is charged on assets with finite lives, the expense is taken to the income statement.

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. 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 carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable. Where recognition criteria are not met development costs are recognised in the income statement as incurred.

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

	Patents and Trademarks	Licences	Development Costs
Useful lives	Finite	Finite	Finite
Method used	15-20 years – Straight line	4 – 20 years – Straight line	20 years – Straight line
Internally generated/acquired	Acquired	Acquired	Internally generated
Impairment test / Recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator 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 income statement when the asset is derecognised.



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Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(iv) Recoverable amount of assets

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

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

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

(v) Inventories

Inventories 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 – purchase cost on a first-in, first-out basis;

Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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.

(vi) Trade and other receivables

Trade receivables are carried at original invoice amount less an allowance for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(vii) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.



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Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(viii) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are de-recognised as well as through the amortisation process.

(c) Summary of significant accounting policies (continued)

(ix) Provisions

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

Where the company 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 income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(x) Share-based payment transactions

The company provides benefits to employees (including directors) of the company 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 performance conditions, other than conditions linked to the price of the shares of Seeing Machines Limited ('market conditions').



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Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

- (i) the extent to which the vesting period has expired; and
- (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the affect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where 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.

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

(xi) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Control of the goods has passed to the buyer.

Interest

Revenue is recognised as the interest accrues using the effective interest method to the net carrying amount of the financial asset.

(xii) Government Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.



SEEING MACHINES LIMITED HALF YEAR REPORT
A.B.N 34 093 877 331

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(xiii) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet 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 where the deferred tax liability 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; and in respect of taxable temporary differences associated with investments in subsidiaries,

except where the timing of the reversal on the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of the unused tax assets 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 assets and unused tax losses can be utilised:

- except where 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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.

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 balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xiv) Other taxes

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

- where 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 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 balance sheet. 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 are classified as operating cash flows.



Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(xiv) Other taxes (continued)

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

(d) AASB 1 Transitional exemptions

The company has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Exemption from the requirements to restate comparative information for AASB 132 and AASB 139

The company has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

In the period to December 2005, the convertible notes were recognised at face value and interest was accrued as incurred. At 1 July 2005, the accounting policies relating to the convertible note was to recognise as fair value on the effective interest rate method. The difference between these two accounting policies has resulted in no material impact.

(e) Impacts of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (AGAAP) are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

		NOTES		
		30 June 2005	31 Dec 2004	1 July 2004
		(**)	(**)	(*)
		A\$	A\$	A\$
TOTAL EQUITY UNDER AGAAP		822,412	412,539	805,568
Adjustments to equity				
Derecognition of deferred research costs	(A)	(396,691)	(247,195)	(268,845)
Recognition of option reserve	(B)	51,066	45,239	37,960
Share based payments expense		(51,066)	(45,239)	(37,960)
TOTAL EQUITY UNDER AIFRS		425,721	165,344	536,723

* This column represents the adjustments as at the date of transition to AIFRS.

** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the periods ended 31 December 2004 and 30 June 2005.



Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS (continued)

A INTANGIBLE ASSETS – DEFERRED RESEARCH AND DEVELOPMENT COST

Under AASB 138 Intangible Assets, costs incurred in the research phase of an internally generated intangible asset would be expensed. The company has reversed all previous research costs capitalised to retained earnings.

B SHARE BASED PAYMENTS

Under AASB 2 Share Based Payments, the company would recognize the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity.

(e) Impacts of adoption of AIFRS (continued)

(ii) Reconciliation of loss after tax under AGAAP to that under AIFRS

		NOTES	
		30 June 2005 A\$	31 Dec 2004 A\$
LOSS AFTER TAX PREVIOUSLY UNDER AGAAP		(1,082,956)	(393,029)
Derecognition of deferred research costs	A	(127,846)	21,650
Fair value of share options issued to employees	B	(13,106)	(7,279)
LOSS AFTER TAX UNDER AIFRS		(1,223,908)	(378,658)

A INTANGIBLE ASSETS – DEFERRED RESEARCH AND DEVELOPMENT COST

Under AASB 138 Intangible Assets, costs incurred in the research phase of an internally generated intangible asset would be expensed. The company has reversed all previous R&D capitalization to retained earnings.

B SHARE BASED PAYMENTS

Under AASB 2 Share Based Payments, the company would recognize the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity.

(iii) Explanation of material adjustments to the cash flow statements

There were no material differences between the condensed cash flow statement presented under AIFRS and those presented under AGAAP.



SEEING MACHINES LIMITED HALF YEAR REPORT
A.B.N 34 093 877 331

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	31 December 2005 A\$	31 December 2004 A\$
2. REVENUE AND EXPENSES		
Specific Items		
Profit from continuing activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the company:		
(i) Revenues		
Sale of goods	1,152,662	743,853
Interest received	13,916	11,632
	1,166,578	755,485
(ii) Other income		
Proceeds from grants	175,777	426,985
Foreign exchange gain	2,657	-
	178,434	426,985
(iii) Expenses		
Depreciation of non-current assets	45,464	81,400
Amortisation of intangible assets	24,600	11,600
	70,064	93,000
Employee benefits	425,158	747,815
Finance costs	61,895	35,355
Marketing	9,710	13,409
Professional fees	60,643	164,624
Minimum lease payment – operating leases	61,527	58,905
Foreign exchange loss	-	11,553
Share based payments	357,573	-



SEEING MACHINES LIMITED HALF YEAR REPORT
A.B.N 34 093 877 331

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	31 December 2005 A\$	30 June 2005 A\$
3. CONTRIBUTED EQUITY		
Ordinary shares		
Issued and fully paid	6,550,345	3,394,946
Movements in ordinary shares in issue		
At July 1 2005	3,394,946	3,394,946
Issue of share capital	3,848,550	-
Transaction costs	(1,159,524)	-
Exercise of options	16,373	-
Conversion of Convertible Notes	450,000	-
	6,550,345	3,394,946

4. SEGMENT INFORMATION

The company operates in one business segment being research, development and production of computer vision technology in Australia. The company's primary product is faceLAB which is marketed internationally.

5. RECONCILIATION OF CASH

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December 2005:

	31 December 2005 A\$	31 December 2004 A\$
Cash at bank and in hand	3,111,588	285,404
Short term deposits	14,554	14,058
	3,126,142	299,462

6. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There have been no significant events that have occurred since the balance sheet date.

7. NO INTERIM DIVIDEND HAD BEEN DECLARED ON THE ORDINARY SHARES (2004 - nil).

8. COPIES OF THIS ANNOUNCEMENT WILL BE AVAILABLE FROM THE COMPANY'S REGISTERED OFFICE, INNOVATIONS BUILDING, LEVEL 3, CORNER EGGLESTON & GARREN ROADS, ACTON ACT 2601, AUSTRALIA.



SEEING MACHINES LIMITED HALF YEAR REPORT
A.B.N 34 093 877 331

Directors' Declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the company:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the company; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink, appearing to be "M. J. ...", written over a horizontal line.

Director

Canberra, 14 March 2006

Independent Review Report

To the members of Seeing Machines Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for Seeing Machines Limited (the company), and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the AIM London Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

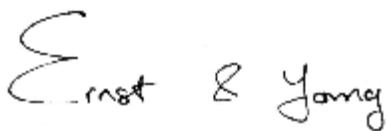
Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and 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.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Seeing Machines Limited is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the company at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 “Interim Financial Reporting” and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



James Palmer
Partner
Canberra

Date: 14 March 2006