



19 October 2006

SEEING MACHINES LIMITED

("SEEING MACHINES" OR "THE COMPANY")

FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2006 (AUDITED)

SEEING MACHINES LIMITED (AIM: SEE) TODAY ANNOUNCES ITS AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2006.

Financial Highlights

- Revenue from sale of goods up 70% to \$2,407,228 (2005: \$1, 414,903)
- Total revenue (includes contract revenue and other income) increased 12% to \$3,092,854 (2005: \$2,768,162)
- Net loss decreased 89% to \$135,077 (2005: \$1,228,908) through the increase in faceLAB™ sales and tight control over expenditure.
- Cash increased to \$2,407,053 (2005: \$663,213) following successful December 2005 IPO (raised £1.65million/A\$3.8m) and highest ever faceLAB™ sales figures of \$2,407,228

Operational Highlights

- two versions of flagship faceLAB™ product released during the year;
- significant progress on the glaucoma diagnostic device including completion of several scientific trials and clinical study; second clinical study commenced, prototype of production device and the software;
- prestigious R&D award and Innovation award for the glaucoma project;
- completion of the prototype driver monitoring system (for detection of fatigue) with Hella KGaA Heuck & Co;
- first field trial of the Fatigue Detection System with Schlumberger Inc., a leading global oilfield services provider;
- May 2006: US patent granted for the "facial image processing system" – the core technology underpinning many of the company's projects;
- February 2006: US patent granted for "assessing neural function by sparse stimuli" – one of the core technology patents underpinning the glaucoma testing device;
- new patent filed in November 2005 relating to robust tracking of subjects wearing eye glasses;
- commencement of the faceAPI™ project which will make the company's key technologies available to third-party application developers for easy use and deployment in a wide variety of applications
- first sales of the Noah Basketball System by Pillar Vision.

Commenting on the results Nick Cerneaz, Chief Executive of Seeing Machines, said: "These tremendous results are testament to the hard work of all our people and the quality of the solutions that we provide to the market. The outstanding year for faceLAB™ sales is a significant contributor along with very tight control over expenditure. This was all achieved whilst we vigorously pursued our R&D projects particularly the glaucoma testing device and we look forward to introducing new, revenue earning products in the coming year."

The Annual Report for Seeing Machines for 2005-2006 including the Audited Financial Statements is available for download from the Company website www.seeingmachines.com. The Annual Report will be mailed to all shareholders later this month.

The Director's Review of Operations, Income Statement, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity follow:

Director's Review of Results & Operations

Financial Results

The financial results include the impact of the transition to A-IFRS in both the current and prior years.

Revenue from sale of goods was \$2,407,228, an increase of \$992,335 (70%) over the previous year (\$1,414,903). This was an outstanding year for faceLAB™ sales and the increase follows the release of version 4 of faceLAB™ in August 2004, version 4.1 in January 2005, version 4.2 in August 2005 and the Scene Camera version in April 2006. Seeing Machines has shipped over 100 systems since the release of version 4 in August 2004. Total revenue (also including contract revenue and other income) for the year was \$3,092,854, an increase of \$324,691 (12%) over the previous year (\$2,768,162). Contract Income of \$56,785 represents a decrease of \$67,925 from the prior year (\$124,710), and other income decreased to \$628,841 by \$599,709 due to a combination of increased interest income following the increase in cash balances as detailed below, offset by the deferral this year of government grant income relating to development projects in line with accounting standards.

Net expenditure for the year was \$3,227,930 down by \$769,140 on the prior year (\$3,997,069). Research and development continued to be the main area of expenditure as the company moved forward with the development of key projects including the glaucoma diagnostic device, automotive applications in the areas of fatigue and distraction detection, faceLAB™ and the new faceAPI™ project which commenced during the year. Marketing costs including travel increased during the year mainly in support of the faceLAB™ business. The cost of goods sold increased in line with the increase in sales of the faceLAB™ product.

The company has capitalised certain of its development costs in line with the accounting standards.

The net loss for the year was \$135,077 a significant reduction (89%) on the net loss of \$1,228,908 for the year ended 30 June 2005. The reduction in the loss was achieved through the increase in faceLAB™ sales and tight control over expenditure.

The company had \$2,407,053 in cash at 30 June 2006 compared to \$663,213 at 30 June 2005. The improvement in the company's cash position was due to the capital raised in an Initial Public Offering (IPO) of the company completed in December 2005 and the increase in faceLAB™ sales. Net assets increased to \$3,913,237 at 30 June 2006 compared to \$442,817 at

30 June 2005. This increase is due to increased cash and capitalised development costs and a reduction in trade and other payables.

faceLAB™

faceLAB™ was the company's first product and remains the flagship product today. Since the release of version 4 in August 2004 more than 100 new systems have been shipped. Two releases – version 4.2 and the Scene Camera version - were made during the year ended 30 June 2006. A number of releases are planned for this financial year including version 5 – a major upgrade introducing significant new functionality for tracking specific facial features.

During the year faceLAB™ was purchased by organisations such as the US National Highway Transport Safety Administration (NHTSA), Daimler Chrysler, Ford, Toyota, Fiat, Australian Defence Science Technology Organisation (DSTO), University of Pennsylvania, John Hopkins University among others.

Medical Devices – Glaucoma Project

We have continued the focus on this key project throughout the year and completed a number of key milestones including validation of the scientific method underpinning the device in a number of scientific trials and the first clinical trial at the Canberra Eye Hospital.

Progress was made across the broad range of activities required to bring the device to market including:

- scientific trials to confirm the underlying scientific method;
- clinical studies to confirm the device in a real clinical environment;
- industrial design including the first prototype of the production version of the device;
- a number of iterations of the software for the device including the patient management software;
- preparatory work required to submit an application for regulatory approval with the Food and Drug Administration (FDA) in the United States, the main market for the device;
- marketing and branding including market research and trademark applications.

The progress made during the year has been very pleasing. The iAwards were another positive given the hard work that has been put in and we have also been successful in recruiting a number of very good people into the project. Our strong collaboration on this project with the Australian National University Research School of Biological Sciences continues and the efforts of Dr Ted Maddess and Dr Andrew James have greatly assisted the progress that has been made.

In March 2006 the company lodged an application for an Australian Government Commercial Ready Grant to support the commercialization of the project. The company was advised on the 8th of August 2006 that the grant had been awarded and on the 11th of September the contract for the grant was executed. The grant will provide matching funding over 2 years of up to \$2.1 million. The company completed an earlier Biotechnology Innovation Fund (BIF) grant in February 2006.

The company will vigorously progress all aspects of this project during the coming year and aims to release the first production version of the device in 2007.

Automotive

The past year has seen excellent progress in the automotive line of business which is targeting the use of the company's core vision processing technologies for driver safety applications.

The company successfully completed the prototype driver monitoring system (for the detection of fatigue) with Tier 1 automotive industry supplier Hella KGaA Heuck & Co (Hella). The prototype was developed for a large European Original Equipment Manufacturer (OEM) and together with Hella a number of marketing and production studies are being undertaken to assess the optimal strategy to deliver the technology into the market. The collaboration with Hella continues today and we are looking at several opportunities with them to progress our vision for driver safety products.

In March the company commenced a fleet trial of its fatigue detection system with global oilfield services provider Schlumberger Inc. The trial has enabled us to test the technology in real world situations and the data and knowledge derived from this trial has been used to make a number of improvements that will further assist the development of the technology for the commercial vehicle market. The company and Schlumberger have recently agreed to an extension of the trial to enable evaluation of the improvements that have been implemented.

A new product known as the Driver State Sensor Research version (DSS-R) is a by product of both these projects. The DSS-R is expected to be released commercially in November 2006. The DSS-R is a feature rich version of the driver monitoring and fatigue detection system with many additional raw data streams to facilitate driver performance research efforts. The DSS-R is targeted at government, university and fleet manager multi-car fleet trials / research.

In addition the company is pursuing other projects in the automotive area including:

- a project with National ICT Australia (NICTA) researching new driver fatigue metrics based on head pose and head motion measurements (which should greatly enhance the quality & robustness of the fatigue metrics of the DSS products mentioned above) ; and
- vision based collision avoidance applications as an R&D participant in the AutoCRC along with industry participants including Holden and Australian Arrow.

In June 2006 the company successfully concluded an Australian Government R&D Grant project for the development of its key automotive technology. The goal of this project was to develop Seeing Machines' face and eye tracking technology to a level where production strength deployment in the automotive domain for the detection of fatigue and distraction is feasible.

faceAPI™ /SDK

Seeing Machines commenced a project to package its core head, eye and facial tracking technology in an API/SDK for sale to third party developers and OEMs. This product will allow third party developers to include the company's computer vision technology in their applications without requiring special engineering services from the company. This will greatly increase the range of commercial opportunities for the company's technology. The first commercial release of faceAPI™ will be made in 2007.

Patents

The company continued its strategy to protect its core intellectual property through patents.

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 as robust tracking of subjects wearing eye glasses is fundamental to having a successful solution for many real world applications particularly those in the automotive industry.

On the 9th of May 2006 the US Patent and Trademarks Office granted the companies key patent "Facial Image Processing System". This patent is the foundation patent for the company's core technology for head and face tracking.

On the 28th of February 2006 the US Patent and Trademarks Office granted the patent "Method and apparatus for assessing neural function by sparse stimuli". On the 26th of May 2006 IP Australia granted the equivalent Australian patent. This is the core technology underpinning the company's glaucoma diagnostic device. This patent is exclusively licensed from the Australian National University.

Chief Executive Officer

The Company's Chief Executive Officer as at 30 June 2006 and at the date of this report is Dr Nick Cerneaz. Dr Cerneaz was appointed as Chief Executive Officer from the 5 September 2005. Tony Kinnear was Chief Executive Officer of Seeing Machines until 2 September 2005.

Company Secretary

The Company Secretary of the Company as at 30 June 2006 and at the date of this report is Belinda Burgess. Belinda has over 10 years experience as a Commercial Manager of private and public corporations. She is currently Operations Manager of Seeing Machines. Prior to this, she was General Manager Commercial Services of a publicly listed technology company for four years.

Staff

Following the IPO the company has grown its staff numbers in order to progress key projects and strengthen its financial management.

At 30 June 2006 the company had 34 employees up on the 24 at 30 June 2005.

Key recruits during the year included Lorrae Collins as Chief Financial Officer and Paul Day as Product Manager for the glaucoma project. The company has also recruited a number of very talented staff for key R&D projects despite the difficult conditions in the local market for IT and other skills.

The company has significantly improved its staff retention rate during the year.

In recognition of the key role played by staff in the success of our project the Board implemented a new Employee Share Options Scheme in June 2006. A large number of staff were granted options under this scheme in July 2006.

Funding

The company achieved a significant milestone in December 2005 with the successful completion of its Initial Public Offering (IPO) and 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 are be used primarily to progress key projects described in this report.

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006	Note*	30 June 2006 A\$	30 June 2005 A\$
Sale of goods		2,407,228	1,414,903
Contract Income		56,785	124,710
Revenue	4(a)	2,464,013	1,539,613
Other income	4(b)	628,841	1,228,548
Change in inventories of finished goods and work in progress	4(c)	(713,770)	(483,775)
Employee benefits expense	4(d)	(1,548,728)	(1,685,761)
Depreciation and amortisation expense	4(e)	(140,437)	(158,674)
Research costs written-off	4(f)	0	(592,459)
Other expenses	4(g)	(763,100)	(1,037,958)
Finance costs	4(h)	(61,895)	(38,442)
Loss before income tax		(135,077)	(1,228,908)
Income tax relating to operations	5	-	-
Loss after tax from operations attributable to members		(135,077)	(1,228,908)
Loss per share (cents per share)	6		
• basic for loss for the year attributable to ordinary equity holders of the company		(0.059)	(0.710)
• diluted for loss for the year attributed to ordinary equity holders of the company		(0.058)	(0.707)

BALANCE SHEET

AS AT 30 JUNE 2006	Note*	As at 30 June 2006 A\$	As at 30 June 2005 A\$
CURRENT ASSETS			
Cash and cash equivalents	8(b)	2,407,053	663,213
Trade and other receivables	9	639,373	292,396
Inventories	10	129,370	99,099
Other	11	39,381	485,718
TOTAL CURRENT ASSETS		3,215,176	1,540,426
NON-CURRENT ASSETS			
Property, plant and equipment	12	251,648	174,335
Intangible assets	13	221,240	242,203
Capitalised development costs	13	1,404,971	0
Other		3,312	2,454
TOTAL NON-CURRENT ASSETS		1,881,170	418,992
TOTAL ASSETS		5,096,346	1,959,418
CURRENT LIABILITIES			
Trade and other payables	15	705,966	1,031,290
Deferred revenue		408,450	10,454
TOTAL CURRENT LIABILITIES		1,114,417	1,041,744
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings		0	471,526
Provisions	16	68,693	3,331
TOTAL NON-CURRENT LIABILITIES		68,693	474,857
TOTAL LIABILITIES		1,183,109	1,516,601
NET ASSETS		3,913,237	442,817
EQUITY			
Contributed equity		6,528,748	3,394,946
Accumulated losses		(3,138,272)	(3,003,195)
Other reserves		522,761	51,066
TOTAL EQUITY		3,913,237	442,817

CASHFLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006	Note*	30 June 2006 A\$	30 June 2005 A\$
CASH FLOWS FROM /(USED IN) OPERATING ACTIVITIES			
Receipts from customers		2,367,014	1,487,628
Grants received		930,843	1,155,409
Payments to suppliers and employees		(2,561,378)	(3,715,822)
Interest received		59,168	20,879
Finance costs paid		(83,421)	0
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	8(a)	712,226	(1,051,906)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of plant and equipment		(179,057)	(90,171)
Payments for intangible assets		0	(91,652)
Payments for research and development costs		(1,444,768)	0
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(1,623,825)	(181,823)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		0	(84,645)
Exercise of options		41,769	0
Issue of shares		3,848,550	1,099,799
Costs of listing on AIM		(1,234,880)	0
NET CASH FLOWS FROM FINANCING ACTIVITIES		2,655,439	1,015,154
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,743,840	(218,575)
Cash and cash equivalents at beginning of period		663,213	881,788
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8(b)	2,407,053	663,213

STATEMENT OF CHANGES IN EQUITY

	Issued Capital A\$	Accumulated Losses A\$	Employee Equity Benefits Reserve A\$	Total Equity A\$
At 1 July 2004	2,295,146	(1,774,287)	37,960	558,819
Loss for the year		(1,228,908)		(1,228,908)
Issues of ordinary shares during the year				
Issue of share capital	1,099,800			1,099,800
Cost of share based payment			13,106	13,106
At 30 June 2005	3,394,946	(3,003,195)	51,066	442,817
Loss for the year		(135,077)		(135,077)
Exercise of options	70,131		(28,363)	41,768
Issues of ordinary shares during the year				
Issue of share capital	3,848,550			3,848,550
Transaction costs	(1,234,880)			(1,234,880)
Conversion of Convertible Notes	450,000			450,000
Cost of share based payment			500,058	500,058
At 30 June 2006	6,528,748	(3,138,272)	522,761	3,913,237

FOR THE YEAR ENDED 30 JUNE 2006

	30 June 2006 A\$	30 June 2005 A\$
Net income recognised directly in equity	0	0
Loss for the year	(135,077)	(1,228,908)
Total recognised income and expense for the year	(135,077)	(1,228,908)
Attributable to equity holders of the company	(135,077)	(1,228,908)

* Notes to the Audited Financial Statements are available for download from the Company website www.seeingmachines.com as part of the full Statements and Annual Report.

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