

# 2007 Annual General Meeting

## Chairman's Address



Welcome everyone to the Seeing Machines Annual General Meeting. The 2007 financial year has been a very good one for the company and will provide us with a strong foundation for future growth.

I will spend some time reviewing the achievements of the past year and then I will hand over to Nick Cerneaz the CEO who will also address you. After this we will be happy to take any questions that you may have.

The period of the 2007 financial year, and indeed more generally that of the period following the Company's listing on AIM in December 2005 up until now, can be characterized as one of product development. Prior to that initial public offering we had developed a body of world class technology with substantial potential, and through FY2007 and beyond, that technology has been refined into a series of products that have real commercial merit. In simplistic terms we have, with the benefit of the capital raised at the IPO and that generated through operational income and government grants, successfully pursued our goal to develop a series of commercially meaningful products that lay the foundation for the company's future commercial success. The recent completion of a supplementary placing raising approximately A\$3.2m coupled with strong on-going operational revenues provide additional resources to accelerate the commercialization of those products.

The relevant period has seen many achievements for the company that I would like to touch on, including:

- solid financial performance with revenue growth over the prior year;
- AIM market and other funding; and
- the progress made on the key projects/products.

I will also tell you a little about the talented team we have in place and the additions we are making to ensure we deliver on the company's opportunities that will deliver shareholder returns.

### Financial Performance

Building on the record revenue results from the prior 2006 financial year, the 2007 year was another record year, with total revenue increasing by 7.4% to A\$2.645 million.

Whilst revenue from sale of goods contracted by 15% to A\$2.042 million, this was offset by a significant increase in contract income derived from our involvement in the AutoCRC project and direct funding from industry partners for ongoing commercialization of the Driver State Sensor (DSS) technology into the OEM markets through their channels. This transition in funding of the DSS effort marks a notable shift in the development of this business as both the technology itself and the market have matured significantly through this year. There has been widespread market interest in driver assistance technologies and we are starting to see

that interest come through in the demand for our DSS technology and consequently the support for its continued development.

The contraction in revenue from sale of goods through the period is a direct reflection of the modest improvements made to the faceLAB product during the previous year (through FY2006). Significant steps have been taken to address those short comings and Nick will elaborate on those in his presentation to follow.

Whilst the total sales revenue for the year has increased, the corresponding increase in net loss for the 2007 financial year to A\$467,000 (A\$135,000 the previous year) is an indication of the significant product development expenditure undertaken during this period. In addition to the important faceLAB developments implemented this year, we have also brought to market new products such as the DSS-R and DSS2 products, the faceAPI product and launched the TrueField Analyzer at the relevant major trade exhibitions. These projects are the practical embodiment of our previously articulated strategic objectives and the investment made in this regard through the period has been very worthwhile.

## **AIM market and other funding**

The funding deployed by the Company to support these developments has been derived from three principal sources:

- operational income generated from the sale of goods, and services;
- Australian government grant funding; and
- investment capital raised in the IPO in December 2005.

As mentioned previously the 2007 financial year has been the most successful year for generating sales revenue. During the year we were successful in seeking a new Commercial Ready grant for the TrueField Analyzer project, valued at A\$2.1 million over 2 years, and coupling these factors with very tight cost control we have limited the net cash burn for the year to just on A\$1 million.

Such financial management has allowed the company to deploy wisely the funds raised at the IPO and generate quite significant progress in our various projects, and create tremendous underlying value for all shareholders. The disparity between this internal progress and the performance of the company's securities on AIM would imply that the investment market may not fully understand the significance of the progress made during the year. As more of these preparatory efforts translate into visible commercial progress we expect that awareness of our progress and its significance will become clearer to all.

In order to provide additional capital funds to facilitate accelerated commercialization of our new products the Company recently undertook a private placing in September of this year, seeking to raise GBP £1.4 million (before costs). Despite the difficult market conditions that prevailed at that time, the placing was fully subscribed at 2.5 pence per share, which was a very pleasing result relative to the mid-market price of 2.375 pence per share at the time of the placing.

The funding provided from this placing and the Commercial Ready grant combined with strong revenues through the year means that the Company is on a very sound financial footing and the efforts of management are firmly focused on those activities ahead that are going to deliver value into the future.

## **Review of key projects**

The 2007 financial year represents an important transition in the life of Seeing Machines. Until this year the company had just one product on the market – faceLAB. During the year we have released the initial versions of a number of new products, including:

- DSS-R and DSS2, and
- faceAPI.

This transition from a single revenue stream to multiple streams has been a long standing objective of the company. In addition to these new products, we have also taken great strides through the period toward bringing the TrueField Analyzer (our new glaucoma diagnostic device) to market. I will now briefly review each of these products.

## **TrueField Analyzer (TFA)**

The TFA has made tremendous progress through 2007 culminating in the presentation of the new device at the ARVO Annual Meeting in Florida in May and the recent American Academy of Ophthalmology Annual Meeting in New Orleans earlier this month. In both cases the reception to the device has been very positive from both the medical community and from potential channel partner companies ideally placed to deliver the device to the relevant markets.

Given the traditionally conservative nature of medicine and general obstacles facing the introduction of any new device, the revolutionary nature of the TFA device is itself a factor impacting the early adoption of the device and this naturally has implications for the initial commercial strategy for the product's introduction. At both the ARVO and AAO meetings a series of academic posters were presented that detailed the science and clinical performance of the TFA device. The posters presented by our colleagues from the ANU lead by Dr Ted Maddess and Dr Andrew James have provided some early scientific background and clinical evidence supporting the device and explaining the theoretical basis for the technique. Additional papers were also presented at the World Glaucoma Congress meeting in Singapore in September 2007. These papers have provided a useful foundation for this effort, though much remains to be done, especially in the context of facilitating independent evaluation of the device by respected luminaries in the field. A major portion of the commercialization effort ahead relates to such independent evaluation to support both further marketing of the device to the ophthalmic and optometric markets generally and also to facilitate commercial licensing negotiations with potential channel partners. Nick will address these matters in more detail in a few moments.

In terms of the development of the product itself very good developments have been made during the 2007 year. After six generations of prototypes we have completed the mechanical and industrial design of the device, finalized various certifications and approvals for the device, including the important FDA regulatory marketing clearance for the US markets that was awarded in August this year. The final versions of the device software were exhibited at the recent AAO meeting and were broadly praised by the clinical community for the quality of the design and user friendliness.

The internal clinical testing program has continued at the Canberra Eye Hospital throughout the period and has recently expanded to include an installation of the TFA at the Flinders Medical Centre in Adelaide. Through these efforts our scientific and clinical team continue to refine and evaluate the underlying technology for both the preparation of dedicated systems destined for the broader independent clinical evaluation program mentioned above, and also for corresponding release of commercial systems. Following the progress of recent commercial negotiations the strategic importance of the independent evaluations is now

taking priority and it is this that is setting the agenda for the ultimate delivery of the TFA to the market.

The TFA product development has gone from strength to strength through 2007 and we are well placed with the positioning of this first version of the product at recent industry trade exhibitions and the channel partner negotiations that have arisen out of those efforts.

## **faceLAB**

faceLAB® continued through 2007 as the company's flagship product and achieved sales of A\$2 million during the year. In July 2007 the cumulative revenue for faceLAB since its introduction in 2001 passed the A\$10 million milestone. FY07 sales include Ford, MIT, Volvo, Nissan, Audi AG, US Department of the Air Force, United States Naval Academy, Cornell University and Queensland Academy of Sport to name a few.

During the year we released a number of updates to the product, culminating with version 4.5 released in early July, followed by a maintenance release in November 2007. These new versions brought significant developments in precision mode and high performance tracking capabilities, and reenergized the product's offering in the market after a period of relative modest progress through 2006. We have already seen the benefits of this effort in recent sales and we look forward to the continued success of the product following these developments.

The future roadmap for faceLAB will see considerable improvement in the user experience through rationalization of the system's complexity for certain applications. Due to the common development platform created at Seeing Machines and the complementary head, eye and facial feature tracking development inherent to all our products, we are able to leverage developments made in our other projects (including DSS, faceAPI and TFA) to incorporate these improvements with minimal effort. The improvements to faceLAB slated for inclusion through the period ahead should enable us to enhance the leading position of the product in its market.

## **Automotive**

During the 2007 financial year we initially released the DSS-R, the Driver State Sensor - Research Edition, and then in July 2007 followed up with the launch of the DSS2 – the first truly commercial version of the DSS technology. The launch of the DSS2 was a highly significant moment in the history of the company as it represented delivery on a key objective dating from the company's inception: the creation and supply of a computer vision based driver monitoring product that detects driver fatigue and distraction and can be used to prevent escalation of those events to adverse or catastrophic outcomes.

The DSS product releases have opened a new revenue stream for the company with a number of early sales of the product to automotive sector customers and research institutes – particularly those involved in driver monitoring studies. Significantly there are many opportunities for commercial sales of the DSS2 into these sectors and we are actively pursuing these to consolidate the early success of this new business.

Early sales of the DSS products to the automotive sector have been facilitated by the good reputation enjoyed by faceLAB in these markets and the synergistic distribution channels between faceLAB and DSS (we are easily able to use the faceLAB distribution channels for delivery of the DSS products to the automotive and research markets, which obviously enhances the efficiency of the business). Whilst this is pleasing, the most notable development following the release of the DSS2 however, has been the creation of a whole

new market opportunity – that of the fleet operator and we are actively progressing opportunities in this market.

In addition to the direct sale of our DSS products to fleet operators, automotive sector customers and research markets, we have been working toward supplying the technology to OEM vehicle manufacturers for inclusion in new passenger and commercial vehicles. Working with Hella KGaA Heuck & Co. (Hella) as a potential volume manufacturer and ultimate supplier of the technology we have jointly developed a successful implementation of such advanced driver monitoring systems and facilitated Hella's efforts to market the product demonstrator to the OEM sector. Market expectations for these technologies has matured during the last year, especially following the introduction of a conceptually similar product into some luxury Toyota models and this has helped to fuel interest and demands at a development level. We continue to facilitate this potential market segment through the technological improvements leveraged from our on-going DSS2 development and through exploring a variety of routes to market. Clearly the opportunities to supply product directly to fleet operators as mentioned above is one such avenue being pursued. In terms of selection of an automotive tier 1 partner(s), whilst we have worked extensively with Hella in recent years we are also exploring alternate channel partners to ensure that the value to shareholders is maximized, whilst keeping to within reasonable timeframes.

With the development of the new DSS based revenue streams, and the strengthening of the DSS offering to fleet operators this sector of our business is very well placed to enjoy considerable growth – naturally this is something that we are pursuing aggressively!

## **faceAPI**

As previously described we are working to make our head, face, facial feature and eye gaze tracking technologies available to application developers through a generalized Application Programming Interface (API) – the faceAPI product. This product serves two distinct, yet synergistic purposes: to make our own internal development efforts more agile, flexible and efficient, and to generate significant additional revenue streams through licensing of the faceAPI product to third party developers. Whilst we continue to make use of the faceAPI internally to support the rapid development of our products, for example DSS and TFA, the initial version of the commercial faceAPI product was released during this year and is available for licensing by third parties. We have a number of licensees for these tracking technologies already signed up and we continue to pursue additional opportunities in a range of markets including biometric security, entertainment, sports training devices, robotics and other industrial and HMI based applications.

## **Staff**

The company's success this year and in the future is based on the achievements of our staff and the work they produce both individually and in teams. We are working in a very tough recruitment market at the moment and this is going to continue for some time into the future.

The company was founded with a very talented team of people and this has been added to over the years. The ability to recruit and retain the talented people we need to make the business a success is a key focus for the Board and management.

Despite the tough recruitment market we have managed to attract some very good people to the Seeing Machines team. One such appointment in recent times is that of Mr Chris McKee to the role of Chief Financial Officer of the company. Chris comes with a wealth of relevant experience for Seeing Machines and he is well equipped to make a significant impact on both the management of the business and the strategic planning for the future.

At this point I'd like to thank all of the staff for their efforts during the year that has resulted in the excellent results and progress that I've spoken about today. Today we have 35 staff across research and development, manufacturing, sales and marketing and administration.

I'll now handover to Nick Cerneaz to deliver the CEO report

# 2007 Annual General Meeting

## CEO Address



Thank you Fulton, and good evening. As Fulton has mentioned the 2007 financial year has indeed been another good year for Seeing Machines as we have consolidated our very strong technology position through the development of a series of commercially relevant products and positioned those products, we believe, to move on to good commercial successes.

Given that backdrop I would like to elaborate on Fulton's overview in a number of key areas, providing some more detail and in doing so outline our plans for the various paths ahead.

As has been noted our total sales revenue in 2007 increased 7.4% to A\$2.645 million, yet the revenue from the sale of goods contracted by 15% to A\$2.042 million. Pleasingly that contraction was more than offset by an increase in contract income, however in isolation such a contraction is potentially an issue. The vast majority of goods sold in 2007 were faceLAB products and the contraction in those revenues has been attributed to a number of factors including:

- minimal product innovation through 2006 in comparison to some competitive products which left faceLAB less able to meet some maturing market expectations in certain areas
- consequential issues for distributor channels to successfully market the product
- a period of reduced direct sales resources through natural turn over and delays recruiting and training replacement resources.

Pleasingly I can report that we have addressed each of these issues and are well on the way to correcting this matter. Whilst we have already replaced the previously lost sales resources we are currently seeking to appoint additional resources to our sales team to capitalize on new opportunities that arise from the recent innovations in the product itself.

The release of a new high performance precision mode for faceLAB and the facility to link multiple faceLAB systems together has greatly enhanced the product's offering in a variety of user applications, some of them traditional markets for faceLAB and others are new to it. The new sales resources will make our pursuit of these opportunities more effective and additionally facilitate the general sales effort needed to address our expanding product portfolio.

Throughout FY2007 we continued to market faceLAB™ at the premier industry, military and academic trade shows & conferences, and we intend to maintain our presence in these arenas throughout this year. In fact our sales staff are attending just such a meeting in the US at this very moment.

Fulton has described the solid progress made in our automotive business with the introduction of the DSS2 and the early establishment of new revenue streams based on that product.

Further to these activities the efforts to deploy the DSS into the OEM passenger and commercial vehicle markets continues through our joint efforts with a variety of potential tier 1 partners including Hella. Given the historical investment in the joint development program with Hella we are continuing to progress this opportunity on a funded/contract services basis.

As Fulton has mentioned the development of our new TrueField Analyzer (TFA) product has been progressed significantly during the year. We presented the final pre-production device at the American Academy of Ophthalmology Annual Meeting earlier this month. Coupled with the US FDA marketing clearance granted in August this year, the new clinical software system and recent updates in the underlying technology that have arisen from further scientific investigations following relevant dialog with luminaries at the ARVO meeting in May, the general reception to the device was overwhelmingly positive.

Following the ARVO meeting in May we commenced a series of preliminary commercial discussions with major OEM ophthalmic & related device companies to explore opportunities for licensing or acquisition of the TFA product. With the new device and system being presented to the market at AAO those negotiations progressed significantly, aiming to firm up the specifications for evaluation and toll-gates for ultimate licensing and/or acquisition of the technology, with such details being captured in proposed MOU.

Moving forward an important step in successfully commercializing the TFA is to ensure respected and independent third party evaluations of the product are made available to the market – both the clinical market and in the case of Seeing Machines the marketplace of potential partners/licensee companies. The recent commercialization negotiations with potential OEM partners/licensees at the AAO meeting strongly reaffirmed that view and consequently we are currently preparing to deploy TFA devices in various independent clinical study environments to provide that evidence. We have recently established the first such TFA unit at the Flinders Medical Centre in Adelaide and other sites will follow shortly.

In recognition of the importance of these independent clinical evaluations to enhance the general market acceptance of the TFA and to facilitate licensing/acquisition negotiations with potential partners, funding support for these clinical evaluations was ear-marked as an activity for use of a portion of the funds raised in the recent placing, and as mentioned above this is being implemented now. As such, these evaluations constitute the next major events in the commercialization of the TrueField Analyzer.

Fulton has already given an overview of the fund raising concluded last month, and as mentioned the placing of GBP £1.4 million (before costs) was fully subscribed at 2.5 pence per share despite the difficult market conditions that prevailed at that time. Among many observations made related to the fund raising in the context of those prevailing market conditions was the relative obscurity of the Company in the AIM market – our low investment profile in the City. This is a fair comment about Seeing Machines and potentially a factor in the performance of the company on the market. To address some of these concerns we have taken some steps recently to positively raise our profile in the market in an effort to have the market better reflect the inherent value of the company. The more direct measures include:

- engaging a dedicated investor relations effort based in London to ensure that relevant news flow about the company is well distributed and followed up;
- engaging a contract investment research agency (Edison) to produce investment research about the company (the first issue should be available within the next month at the most); and most importantly,

- working very hard to establish meaningful commercial activity that is the very substance of real success, and indeed the raw materials necessary for the activities listed above to have any decent impact.

Through combination of these measures, especially through progress on commercial activities, we aim to present a more reasonable picture of the value within the company allowing all shareholders to share in the Company value. The 2007 financial year was a very good year for Seeing Machines and we look forward to building on those successes this year and in the future given the strong position that we have established through this year's investment.