

Annual Report 2006/07



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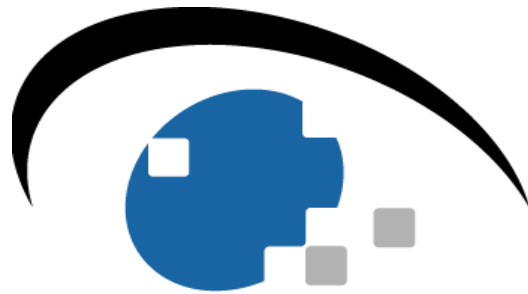
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seeingmachines

ABN 34 093 877 331

Seeing Machines Limited

Annual Financial Report

**For the year ended
30 June 2007**

DocNo: sm10705-0



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

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Corporate Information

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This annual report covers Seeing Machines Limited as an individual entity. The Company's functional and presentation currency is AUD (\$).

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

Directors	James Fulton Muir, AO	Non Executive Chairman
	Nicholas Cerneaz	Executive Director
	David Gaul	Non Executive Director
	Anthony Paul Kinnear	Non Executive Director – ceased 30 November 2006
	William Mobbs	Non Executive Director – appointed 18 October 2006
	Rob Sale	Non Executive Director
	Trent Victor	Non Executive Director
	Alexander Zelinsky	Non Executive Director

Company Secretary Belinda Burgess

Registered office Level 3, Innovations Building
Corner Garran and Eggleston Roads
Canberra ACT 2600

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452 Johnston Street
Abbotsford VIC 3067

Solicitors Deacons
1 Alfred Street
Circular Quay NSW 2000

Bankers Commonwealth Bank of Australia Limited
University Drive
Canberra ACT 2600

Auditors Ernst & Young
51 Allara Street
Canberra ACT 2600



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Director's Report

Your directors submit their report for the year ended 30 June 2007.

DIRECTORS

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

James Fulton Muir, AO	Non Executive Chairman
Nicholas Cerneaz	Executive Director
David Gaul	Non Executive Director
Anthony Kinnear	Non Executive Director – resigned 30 November 2006
William Mobbs	Non Executive Director – appointed 18 October 2006
Rob Sale	Non Executive Director
Trent Victor	Non Executive Director
Alexander Zelinsky	Non Executive Director

REVIEW OF OPERATIONS

Financial Results

Total revenue for the year increased 7.4% to A\$2,645,504. Revenue from sale of goods was A\$2,042,427, a decrease of A\$364,801 (15%) over the previous year (A\$2,407,228). Contract Income of A\$603,077 represents a 9-fold increase of A\$546,292 over the prior year (A\$56,785) due to a number of automotive research contracts. Other income decreased to A\$199,259 from A\$628,841 in 2006 due to the completion of the Start Grant at 30 June 2006 and the capitalisation of the Commercial Ready Grant.

Net expenditure for the year was A\$3,311,716 up by A\$83,786 on the prior year (A\$3,227,930). Product development and technology research continued to be the main area of expenditure as the company moved forward with the development of key projects including TrueField Analyzer® our medical device to help doctors detect and manage glaucoma and other eye diseases, the Driver State Sensor, our sensing technology for automotive applications in the areas of fatigue and distraction detection, faceLAB® and the faceAPI™ products. Marketing costs including travel increased during the year mainly in support of the faceLAB® business. The cost of goods sold reduced in line with the decrease in sales of the faceLAB® product, and further development of manufacturing efficiencies for the product.

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

The net loss for the year was A\$466,953 – up from A\$135,077 for the year ended 30 June 2006. The loss during this financial year is an indicator of the significant product development undertaken during the year. The company will be aggressively pursuing the commercialisation of all four product streams during FY2008.

The company had A\$1,375,428 in cash at 30 June 2007 compared to A\$2,407,053 at 30 June 2006. Cash has been utilised in both the payment to suppliers and employees in the generation of operating income and for the purchases of plant, equipment, intangible assets and development costs capitalised during the



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Director's Report (continued)

year. Net assets decreased to A\$3,628,429 at 30 June 2007 compared to A\$3,913,237 at 30 June 2006. This decrease is primarily due to the reported loss for the year.

Operational Highlights

Highlights for the year ended 30 June 2007 included:

- excellent progress across all product development streams including faceLAB®, TrueField Analyzer® (TFA), Driver State Sensor (DSS) and faceAPI;
- award of a Commercial Ready Grant worth A\$2.1 million over 2 years for TrueField Analyzer® in August 2006;
- achieved A\$2 million in sales for faceLAB® the Company's flagship product;
- introduction of a new version (v4.3) and an ancillary tool (faceLAB-LINK) for faceLAB® during the year (and a very significant new version v4.5 released in July 2007);
- first prize award of the Secrets of Australian ICT Innovation Award in the Health category for TrueField Analyzer® (TFA);
- successful debut of the TrueField Analyzer® at the Association for Research in Vision and Ophthalmology (ARVO) Annual Meeting in Florida in May 2007;
- execution of a Master Development and Commercialization Agreement with the Australian National University giving the company first access rights to commercialize all future intellectual property that was developed within the University with any assistance provided by the company;
- release of the DSS-R automotive product in November 2006 generating both initial sales and promoting market interest and OEM negotiations for the technology (note also the new commercial version, the DSS 2, was released in July 2007);
- continuing strong relationship and progress with Hella KGaA Heuck & Co on the development of the driver monitoring system (for the detection of fatigue and distraction) targeted at the automotive Original Equipment Manufacturer (OEM) market;
- delivery of a Speed Sign Recognition System as part of the Automotive Cooperative Research Centre (AutoCRC) Vision Based Collision Avoidance Project;
- the development of the next generation head tracking technology (the company's core vision processing technology) and filing of relevant patents to protect the new intellectual property;
- the release of the first generalized faceAPI product to the market, that makes our head and face tracking technology available to third parties under license; and
- the signing of a licence agreement for the faceAPI product with a North American computer vision company.

faceLAB®

faceLAB® achieved sales of A\$2 million during the year and in July 2007 passed the A\$10 million cumulative revenue milestone. The contraction in faceLAB® sales revenue in FY2007 over the previous year has been primarily due to the relatively modest improvements in the product during the prior year. The release of improvements made during this year, and principally the version 4.5 release in July 2007, which marks a significant improvement in the precision mode and high performance pupil tracking capabilities (derived from technology developments initially made in the TrueField Analyzer product) has already lead to a number of new sales for the product and bodes well for continued improvements in the faceLAB® business ahead. As indicated above there were several releases of faceLAB® during the year:

- faceLAB® 4.3 released in October 2006



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Director's Report (continued)

- faceLAB-Link released in March 2007
- and immediately following the close of the year, faceLAB® 4.5 was released in July 2007.

faceLAB® 4.3 introduced a new smaller form-factor hardware platform which reduces systems complexity and setup time and increases experimental flexibility.

faceLAB-Link brings dynamically expandable field of view capability to faceLAB® for the first time by enabling multiple faceLAB systems to be used simultaneously. faceLAB-Link systems can be configured to accommodate a full 360 degrees of head rotation – a world first for non-invasive eye tracking systems.

Most recently, faceLAB® 4.5 has introduced a new class of precision gaze tracking algorithms that take advantage of the research undertaken for the TFA medical device. The new algorithms track the gaze direction of each eye in true 3 dimensional space (3D), and enable a 1-click setup for subjects, including people wearing glasses. Tracking is performed from a single camera platform without the need for additional light sources to be placed around the screen. The volume of the tracking zone has been more than doubled, and this allows the subject more freedom of movement. The accuracy of the head-tracking has also been improved through the use of the precision eye-tracking data. These improvements place us very well to take on the rapidly growing market segment for on screen gaze tracking – a market segment outside the traditional faceLAB markets (which have always been pure human factors and a variety of research environments). Since the introduction of faceLAB® 4.5 in July 2007 initial sales have been made into this new market segment and we are pursuing further such opportunities as we seek to grow the revenue base for faceLAB® generally.

During the year faceLAB® was purchased by organisations such as Ford, MIT, Volvo, Nissan, Audi AG, US Department of the Air Force, United States Naval Academy, Cornell University and Queensland Academy of Sport.

TrueField Analyzer®

The company has aggressively pursued its goal to release the first production version of the TFA during calendar year 2007. Real progress has been made and we have been greatly assisted by the award in August 2006 of an Australian Government Commercial Ready Grant, worth A\$2.1 million over 2 years to support the commercialization of the project.

In March 2007 the company was awarded first prize in the Secrets of Australian ICT Innovation Award for the TrueField Analyzer® in the Health category. In May 2007 the TFA debuted publicly to great acclaim at the Association for Research in Vision and Ophthalmology (ARVO) Annual Meeting in Florida. This was the first public demonstration of the TFA to the Ophthalmology community which is the key initial market for the device when it is released commercially.

Key areas of work on the TFA throughout the year have been:

- scientific and clinical studies;
- software development;
- hardware design and development;
- regulatory approval;
- intellectual property protection;
- marketing and business development activities.



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Director's Report (continued)

The main clinical study CT2 has continued at Canberra Eye Hospital we have completed testing of 82 glaucoma patients and 100 age matched normal subjects. A number of scientific studies have also been undertaken with the aim of identifying the best general testing protocol across the spectrum of normal and mild, moderate and severe glaucoma cases. Significant progress has been made on the software and hardware for the TFA and we have produced a series of pre production prototypes that has been used for demonstration purposes and extensive testing in the clinical study program at both the Canberra Eye Hospital and the Australian National University's Research School of Biological Sciences.

The company submitted an application for 510k marketing clearance to the United States Food and Drug Administration (FDA) during the year. We were advised on the 15th August 2007 that 510k Marketing Clearance had been granted for the Truefield Analyzer, permitting the introduction and marketing of the device for commercial sale within the US markets. This regulatory clearance marks a significant hurdle for the commercialisation of the TFA.

The company has achieved trademark protection for the TFA in Australia, the United States and a number of European and Asian countries. The TFA website was launched for the ARVO meeting. The company is in discussion with several of the leading OEM companies in the medical devices field who are interested in securing the rights to take the TFA to market.

The company is intending to launch the TFA commercially in the United States later this year and the next milestone in that plan will be the American Academy of Ophthalmology Annual Meeting in New Orleans in November 2007. This conference held annually is the largest US ophthalmology conference and a significant event for showcasing TFA to the industry.

Automotive

The last year has seen a number of very significant developments in the automotive business segment in both product development and commercialisation. The Driver State Sensor (DSS) product/technology has been evaluated by a number of independent groups through the year and has consistently demonstrated its superior performance in the market (as a platform for driver monitoring to detect driver distraction and fatigue).

Trent Victor of Volvo Technology, and a director of Seeing Machines, who has been working with driving monitoring systems for over 10 years at Volvo, recently said of the DSS: "This technology has redefined state-of-the-art. Operating fully automatically, the DSS2 achieves a level of performance previously unseen and the technology now becomes a real contender for serial production systems."

The company has continued its collaboration through the year with Hella KGaA Heuck & Co (Hella) to bring an Original Equipment Manufacturer (OEM) version of the DSS to market. Hella is seeking to develop and supply advanced driver assistance systems to the global OEM passenger and freight vehicle markets and is looking to introduce the DSS for supply into these markets. The relationship has borne significant engineering development through the year and these product innovations have in turn supported significant product demonstrations and market development efforts with them OEM vehicle manufacturers in the market (Hella's customers). The parties continue to work together in a mutually beneficial approach to developing this market and realizing a return to the parties.



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Director's Report (continued)

The company has continued its work with global oilfield services provider Schlumberger Inc., with DSS systems installed in trucks in Texas and Canada. Schlumberger is currently seeking to expand the deployment of DSS systems to their operations in other parts of the world.

The first commercial version of the product, the DSS2, was released to the market in July 2007 at the Driving Assessment Conference in Washington state, US. This version of the DSS is targeted at the fleet, OEM and research markets and since its release it has generated initial sales and very strong interest from the target markets and will enable the company to diversify its revenue base in 2008.

The company is a research participant in the Co-operative Research Centre for Advanced Automotive Technology Ltd. ("AutoCRC") and the leader of the Vision Based Collision Avoidance Project. The initial development undertaken under the banner of this project has been a speed sign recognition system and an in-car demonstrator version of this was delivered during the year and is currently being evaluated. The project will continue to run through FY2008 and beyond, and provides a platform for the company to both generate contract revenue and also to leverage the resources of the project participants to assist in the development of support technologies that enhance the offering of our other automotive products.

faceAPI™ /SDK

Seeing Machines has released the first version of a generalized Application Programming Interface (API) which packages its core head, eye and facial tracking technology for sale to third party developers and OEMs. The launch of this product extends the initial business opportunities established by the company in previous years supplying our core technology within bespoke applications for use within a variety of markets, including robotics systems developers and sports training products. We will also release in the near future a developer version of the API, providing a platform for third party developers to rapidly integrate the technology into their products, enhancing the attractiveness of this solution system, and additionally providing an additional revenue stream for the company.

A licence agreement for the new faceAPI™ product was signed in May 2007 with a North American computer vision company who is using the company's head tracking technology in their application. Seeing Machines receives a royalty payment for each system sold.

Seeing Machines is currently pursuing several business development opportunities for this product.

Patents and Trademarks

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

Trademarks for the TFA have been sought and obtained in a number of jurisdictions including:

- Australia
- United States
- Europe
- Asia.



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Director's Report (continued)

During the year the company lodged a patent for a new generation of head tracking technology (already incorporated into the DSS2 product). The company is currently lodging a number of key application patents, especially in the faceAPI™ business sector.

Chief Executive Officer

The Company's Chief Executive Officer for the full financial year to 30 June 2007 and at the date of this report is Dr Nicholas Cerneaz.

Company Secretary

The Company Secretary of the Company for the full financial year to 30 June 2007 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

At 30 June 2007 the company had 39 employees (up from 34 at 30 June 2006) including 31 fulltime staff.

Additional staff were employed during the year to augment the sales team and the product development activities. The company continues to optimize the staff resources to meet the needs of the business and moving forward expects to further supplement our sales and marketing team to support the growth in saleable product coming online as a result of the product development work of this and the previous financial year.

In recognition of the key role played by staff in the success of the company the Board implemented an Employee Share Option Scheme in June 2006. In July 2006 20 staff members were granted options under this scheme.



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Director's Report (continued)

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	Chairman
HonDUniv (ANU)	Mr Muir has had a distinguished career in banking, government and international relations. He has held senior positions in major Australian banks, including Westpac and St George Building Society. He has been the New South Wales State Government Commissioner for North America, and also economic adviser to the Chief Minister of the Australian Capital Territory Government. He is a Director of a number of companies, Chair of ANU Enterprise and Australian Scientific Instruments. Until recently he held 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.
David Gaul	Non-executive director
	Mr Gaul is co-founder, non-executive director and past President of CEA Technologies, a highly successful technology company that designs and develops radar and communications technology. David was the Australian Technology Entrepreneur of the Year in 2003 and has over 20 years experience in high-tech commercialism. David is a founding fellow of the Australian Institute of Company Directors.
William Mobbs	Non-executive director
MBA, BSc, MAICD	Mr Mobbs is currently the CEO and co-founder of ITL Limited, an ASX listed company, with over 10 years experience developing, manufacturing, marketing and selling product into the global medical and healthcare industry. Bill has a strong track record for successfully turning product R&D into commercial outcomes in the medical and healthcare markets.
	<i>Appointed: 18 October 2006</i>



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Director's Report (continued)

Name and qualifications	Experience and special responsibilities
Rob Sale	<p>Non-executive director</p> <p>Mr Sale is the Managing Director of Diversionary Therapy Technologies Pty Ltd, a medical devices company. Rob has a long track record of success in establishing and developing technology start-ups. He grew Abacus Data Systems, an Australian IT services and software development company from 20 to over 100 staff and contractors, ultimately negotiating the sale of the business in 1999. Rob is a member of the CSIRO Sector Advisory Committee on Information Technology, Communications and Services and sits on one of CSIRO's technology company boards. CSIRO is one of Australia's largest and most diverse scientific and research organisations.</p>
Dr Trent Victor Ph. D., M. Sc.	<p>Non-executive director</p> <p>Dr Victor is Product Area Manager for Driver Environment at Volvo Technology. Volvo Technology is a research and innovation company in the Volvo Group where new technologies, products and businesses are developed. Trent is responsible for co-ordination of research, innovation and product integration in the driver's environment. He also has specific expertise in driver awareness products, such as drowsiness alert, distraction alert, interaction support (workload management), attention-sensitive driving support, impairment detection and distraction evaluation tools. Trent has been the key person behind Volvo's involvement in Seeing Machines, ever since Volvo's first research contract with the Australian National University in the 1990s.</p>
Dr Alexander Zelinsky Ph.D., BMath(Hons)., SMIEEE, FAICD, FTSE.	<p>Non-executive director</p> <p>Dr Zelinsky is currently Group Executive, Information and Communications Sciences and Technology, and Director, CSIRO Information Communication Technology (ICT) Centre. Prior to this Alex was a cofounder and CEO of Seeing Machines. Alex was also Professor and Head of Department of Information Engineering at the Australian National University. Alex is extensively published and is internationally recognised as a leader in the fields of robotics and computer vision. He has worked in the computer industry and has had extensive international experience as a project leader developing cutting edge technology. Alex has received numerous international awards and recognition for his work. In May 2005 Alex received the prestigious Australian Academy of Technological Sciences and Engineering Clunies-Ross Award for successful innovation involving the application of science and technology for the benefit of Australia.</p>



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Director's Report (continued)

Name and qualifications	Experience and special responsibilities
Dr Nicholas Cerneaz D.Phil, B.E.(Hons), B.Sc	Executive director Dr Cerneaz 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 at CTI Mirada Solutions 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.

Principal Activities

The Company's principal activities during the year were:

- development, sale and distribution of its faceLAB® product;
- development of the TrueField Analyzer® medical device to assist doctors detect and manage glaucoma and other eye diseases;
- development of the Driver State Sensor (DSS) products to detect driver distraction and fatigue and continued market development to secure a sustainable channel to market for the products and technologies;
- development of the faceAPI product and development of commercial opportunities to license and deploy the product; and
- research and development of the Company's core vision processing technologies to support the development and refinement of the company's products.

Review of Operations

Refer to the Chairman's and CEO Review of Operations above.

Changes in State of Affairs

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



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Director's Report (continued)

Subsequent Events After the Balance Date

On the 21st of July 2007 the Directors of the company resolved to undertake a capital raising to support the commercialization of the company's products. The capital raising was conducted in September via a selected placing of ordinary shares raising £1,287,130 (A\$3,083,685) in funds (before expenses). A further placing of ordinary shares to directors and staff following the release of this report is expected to bring the total funds raised to £1,400,000 (A\$3,354,097) before expenses.

In August 2007 the company received marketing clearance from the United States Food and Drug Administration (FDA) for its medical device the TrueField Analyzer® (TFA). This approval satisfies a major regulatory hurdle for the commercialization of the device.

Except as set out above there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

Future Developments

The Company will continue to progress the activities described in this report most notably:

- the development and sale of its faceLAB® product;
- the development and commercialization of the TrueField Analyzer® (TFA);
- the development and commercialization of the Driver State Sensor (DSS); and
- the development and commercialization of the faceAPI™ /faceSDK.

Environmental Regulations

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

Dividends

No dividends or distributions have been made to members during the year ended 30 June 2007 and no dividends or distributions have been recommended or declared by the directors in respect of the year ended 30 June 2007.

Share Options

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

On June 28 2006 an Employee Share Options Scheme was approved by the Board. On the 1st of July 2006 20 staff were granted options totaling 4,027,265 shares under this new scheme.

No further options were granted during the year.



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Director's Report (continued)

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

During the year 292,398 Ordinary Shares have been issued as a result of the exercise of options under the Employee Share Options Scheme.

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

(iii) Share options on issue at the date of the report

As at the date of this report there were 22,008,137 options issued (22,115,867 at the reporting date). Since the reporting date 107,730 options have lapsed.

Unissued Shares

As at the date of this report there were 22,008,137 unissued ordinary shares under options (22,115,867 at the reporting date).

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

Indemnification of Directors and Officers

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the company (as named above), the Company secretary, and all executive officers of the Company against a liability incurred as such a director, secretary, or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Directors Meetings

During the 2007 financial year 13 Board meetings were held. The following table sets out the number of directors' meetings each director was eligible to attend and the number of meetings they actually attended.

Directors	Meetings Eligible to Attend	Meetings Attended
(James) Fulton Muir	13	12
David Gaul	13	13
William Mobbs	9 (from 18 October 2006)	8
Rob Sale	13	12
Trent Victor	13	11
Alexander Zelinsky	13	13
Anthony Kinnear	5 (until 30 November 2006)	4
Nicholas Cerneaz	13	13



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Director's Report (continued)

Proceedings on Behalf of the Company

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

Auditors Independence Declaration

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

Non-Audit Services

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

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

Tax compliance services	A\$76,431
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Signed at Canberra this 24th day of September 2007 in accordance with a resolution of the directors made pursuant to section 298(2) of the *Corporations Act 2001*.

Handwritten signature of James Fulton Muir.

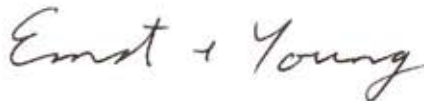
James Fulton Muir
Chairman

Handwritten signature of Nicholas Cerneaz.

Nicholas Cerneaz
Chief Executive Officer
and Director

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

In relation to our audit of the financial report of Seeing Machines Ltd for the financial year ended 30 June 2007, 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



G J Knuckey
Partner
24 September 2007



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Income Statement

FOR THE YEAR ENDED 30 JUNE 2007		30 June 2007	30 June 2006
	Note	A\$	A\$
Sale of goods		2,042,427	2,407,228
Contract Income		603,077	56,785
Revenue	4(a)	2,645,504	2,464,013
Other income	4(b)	199,259	628,841
Change in inventories of finished goods and work in progress	4(c)	(561,055)	(713,770)
Employee benefits expense	4(d)	(1,395,088)	(1,548,728)
Depreciation and amortisation expense	4(e)	(286,947)	(140,437)
Research costs written-off	4(f)	0	0
Other expenses	4(g)	(1,068,626)	(763,100)
Finance costs	4(h)	0	(61,895)
Loss before income tax		(466,953)	(135,077)
Income tax relating to operations	5	-	-
Loss after tax from operations attributable to members		(466,953)	(135,077)
Loss per share (cents per share)			
	6		
• basic for loss for the year attributable to ordinary equity holders of the company		(0.182)	(0.059)
• diluted for loss for the year		(0.182)	(0.059)



Balance Sheet

AS AT 30 JUNE 2007	Note	As at 30 June 2007 A\$	As at 30 June 2006 A\$
CURRENT ASSETS			
Cash and cash equivalents	8(b)	1,375,428	2,407,053
Trade and other receivables	9	350,813	639,373
Inventories	10	136,571	129,370
Other	11	34,825	39,381
TOTAL CURRENT ASSETS		1,897,637	3,215,177
NON-CURRENT ASSETS			
Property, plant and equipment	12	244,953	251,648
Intangible assets	13	277,962	221,240
Capitalised development costs	13	3,719,471	1,404,971
Other		3,586	3,312
TOTAL NON-CURRENT ASSETS		4,245,972	1,881,171
TOTAL ASSETS		6,143,609	5,096,348
CURRENT LIABILITIES			
Trade and other payables	15	756,736	705,966
Deferred revenue		1,661,193	408,450
TOTAL CURRENT LIABILITIES		2,417,929	1,114,416
NON-CURRENT LIABILITIES			
Provisions	16	97,251	68,693
TOTAL NON-CURRENT LIABILITIES		97,251	68,693
TOTAL LIABILITIES		2,515,180	1,183,109
NET ASSETS		3,628,429	3,913,239
EQUITY			
Contributed equity		6,553,932	6,528,748
Accumulated losses		(3,605,225)	(3,138,272)
Other reserves		679,722	522,761
TOTAL EQUITY		3,628,429	3,913,237



Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

	Issued Capital A\$	Accumulated Losses A\$	Employee Equity Benefits Reserve A\$	Total Equity A\$
At 1 July 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
Loss for the year		(466,953)		(466,953)
Exercise of options	15,000		(10,184)	4,816
Cost of share based payment	10,184		167,145	177,329
At 30 June 2007	6,553,932	(3,605,225)	679,722	3,628,429

Statement of Recognised Income and Expense

FOR THE YEAR ENDED 30 JUNE 2007

	30 June 2007 A\$	30 June 2006 A\$
Net income recognised directly in equity	0	0
Loss for the year	(466,953)	(135,077)
Total recognised income and expense for the year	(466,953)	(135,077)
Attributable to equity holders of the company	(466,953)	(135,077)



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Cashflow Statement

FOR THE YEAR ENDED 30 JUNE 2007		30 June 2007 A\$	30 June 2006 A\$
	Note		
CASH FLOWS FROM /(USED IN) OPERATING ACTIVITIES			
Receipts from customers		3,232,553	2,367,014
Grants received		1,301,390	930,843
Payments to suppliers and employees		(3,016,722)	(2,561,378)
Interest received		87,902	59,168
Finance costs paid		0	(83,421)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	8(a)	1,605,123	712,226
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of plant and equipment		(150,707)	(179,057)
Payments for intangible assets		(76,762)	0
Payments for research and development costs		(2,424,279)	(1,444,768)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(2,651,748)	(1,623,825)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of options		15,000	41,769
Issue of shares		0	3,848,550
Costs of listing on AIM		0	(1,234,880)
NET CASH FLOWS FROM FINANCING ACTIVITIES		15,000	2,655,439
NET INCREASE IN CASH AND CASH EQUIVALENTS		(1,031,625)	1,743,840
Cash and cash equivalents at beginning of period		2,407,053	663,213
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8(b)	1,375,428	2,407,053



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Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial report of Seeing Machines Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 20 September 2007.

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

The nature of the operations and principal activities of the Company are described in note 3.

2. BASIS OF PREPARATION OF THE ANNUAL FINANCIAL REPORT

(a) BASIS OF ACCOUNTING

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

(b) STATEMENT OF COMPLIANCE

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the company for the annual reporting period ending 30 June 2007 as outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Company financial report	Application date for Seeing Machines
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 7 <i>Financial Instruments: Disclosures</i> .	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Company's financial report.	1 July 2007



Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Company financial report	Application date for Seeing Machines
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 <i>AASB 2 – Company and Treasury Share Transactions</i> .	1 March 2007	This is consistent with the Company's existing accounting policies for share-based payments, so the standard is not expected to have any impact on the Company's financial report.	1 July 2007
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 <i>Operating Segments</i> .	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. However the standard is expected to have an impact on the Company's segment disclosures as segment information included in internal management reports is more detailed than that currently reported under AASB 114 <i>Segment Reporting</i> .	1 July 2009
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	Amending standard issued as a consequence of revisions to AASB 123 <i>Borrowing Costs</i> .	1 January 2009	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Company has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standards for wording errors, discrepancies and inconsistencies.	1 July 2007	The amendments are minor and do not affect the recognition, measurement or disclosure requirements of the standards. Therefore the amendments are not expected to have any impact on the Company's financial report.	1 July 2007



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Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Company financial report	Application date for Seeing Machines
AASB 7	<i>Financial Instruments: Disclosures</i>	New standard replacing disclosure requirements of AASB 130 <i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> and AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> .	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	<i>Operating Segments</i>	New standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009
AASB 123 (amended)	<i>Borrowing Costs</i>	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset must be capitalised.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009
AASB Interpretation 10	<i>Interim Financial Reporting and Impairment</i>	Addresses an inconsistency between AASB 134 <i>Interim Financial Reporting</i> and the impairment requirements relating to goodwill in AASB 136 <i>Impairment of Assets</i> and equity instruments classified as available for sale in AASB 139 <i>Financial Instruments: Recognition and Measurement</i> .	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139, which are to take precedence over the more general statement in AASB 134, are not expected to have any impact on the Company's financial report.	1 July 2007



Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Company financial report	Application date for Seeing Machines
AASB Interpretation 11	<i>Company and Treasury Share Transactions</i>	Addresses whether certain types of share-based payment transactions with employees (or other suppliers of goods and services) should be accounted for as equity-settled or as cash-settled transactions under AASB 2 <i>Share-based Payment</i> . It also specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

(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:

	2007	2005
Leased computers	N/A	37.5%
Computer software	40%	40%
Furniture and fittings	7.5% - 37.5%	7.5% - 37.5%



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Notes to the Financial Statements (continued)

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 of individual assets 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 individual 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 based on effective interest rate method when incurred.

(iii) Intangible assets

Patent, trademarks and licenses

Patents, trademarks and licenses acquired separately are capitalised at cost. The useful lives of patents, trademarks and licenses 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



Notes to the Financial Statements (continued)

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
Amortisation Method used	15-20 years - Straight line	4 - 20 years - Straight line	5 years - Straight line
Internally generated/acquired	Acquired	Acquired	Internally generated
Impairment test / Recoverable amount testing	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.

(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;



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Notes to the Financial Statements (continued)

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 there is objective evidence that the Company will not be able to collect the debts. 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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Cash on hand and in banks and short-term deposits are stated at nominal value. Interest is recognised as income as it accrues.

(viii) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(ix) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of 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.

(x) 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



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Notes to the Financial Statements (continued)

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.

(xi) 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').

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.



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Notes to the Financial Statements (continued)

(xii) 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

Interest revenue is recognised as the interest accrues using the effective interest method.

(xiii) Contract Income

Contract income is for commissioned research and development and other projects. Contract income is recognised according to the contractual terms entered into with the specific buyer.

(xiv) 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 the asset and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

The government grants recognised in the accounts are Australian Federal Government Grants for Research and Development including:

- Commercial Ready Grant for Truefield Analyzer® (TFA);
- Biotechnology Innovation Fund (BIF) Grant for Glaucoma;
- R&D Start Grant for vision-based human-machine interface;

The Commercial Ready Grant commenced on 17 April 2006, the BIF Grant was completed on 28 February 2006 and the Start Grant was completed on 30 June 2006.

Under the terms of each of the grant agreements the company must use its best endeavours to exploit the results of the project on normal commercial terms in a manner that will be for the benefit of the Australian economy within a reasonable time of completion of the Project. The company must not deal with or grant or create any encumbrance over its interest in the project intellectual property without the prior written consent of the Department administering the grant. Obligations under the grant agreement continue for five years following completion. The company must provide reports to the government on commercialisation activities one year, two years and five years after the project's completion.



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Notes to the Financial Statements (continued)

(xv) 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
- except in respect of taxable temporary differences associated with investments in subsidiaries, 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.

(xvi) 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



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Notes to the Financial Statements (continued)

- 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.

(xvii) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Seeing Machines Limited is Australian dollars (\$).

(ii) Transactions and balances

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

All exchange differences in the financial report are taken to profit or loss.

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



Notes to the Financial Statements (continued)

3. SEGMENT REPORTING

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

	30 June 2007 A\$	30 June 2006 A\$
4. REVENUES AND EXPENSES		
(a) Revenue		
Sale of goods	2,042,427	2,407,228
Contract Income	603,077	56,785
	2,645,504	2,464,013
(b) Other income		
Export Market Development Grant - Austrade	35,455	38,133
START Grant	0	396,858
BIF Grant	0	104,323
Interest Earned	105,933	89,527
Recognition of deferred grant income	48,646	0
Insurance recovery	8,409	0
Profit on Disposal of assets	816	0
	199,259	628,841
(c) Change in inventories of finished goods and work in progress		
Cost of Goods Sold	(455,652)	(631,085)
Finishing Services	(7,641)	(6,926)
Warranty Replacements	(1,025)	(315)
Packaging & Freight	(22,964)	(32,387)
Development Costs	(753)	0
Workshop Sundries	(5,983)	(25,728)
Production	(67,037)	(17,329)
	(561,055)	(713,770)
(d) Employee benefits expense		
Provision for Long Service	(28,558)	(65,362)
Share based payments	(167,145)	(500,058)
Salaries & Wages	(2,830,752)	(1,985,357)
Workers' Compensation Insurance	(15,621)	(14,780)
Employee Benefits capitalised	1,646,988	1,016,828
	(1,395,088)	(1,548,728)



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Notes to the Financial Statements (continued)

	30 June 2007 A\$	30 June 2006 A\$
(e) Depreciation and amortisation expense		
Amortisation of intangible assets	(129,819)	(60,760)
Amortisation of deferred income	0	21,210
Depreciation of property, plant and equipment	(157,128)	(100,887)
	(286,947)	(140,437)
(f) Research costs written off		
Research costs written off	0	0
(g) Other expenses		
Intangibles Write-Off	0	0
Property Plant & Equipment Write off/(on)	(2,827)	0
Foreign Exchange Differences	(62,436)	(4,016)
Professional Fees	(342,391)	(134,031)
Audit Fees	(50,500)	(74,423)
Corporations Fees	(218,809)	(112,412)
Office and administration costs	(91,908)	(90,008)
Property Costs	(149,069)	(145,802)
Communications	(28,660)	(23,748)
International travel and marketing	(239,697)	(221,842)
Domestic travel and marketing	(87,615)	(54,872)
Other	205,286	98,054
	(1,068,626)	(763,100)
(h) Finance costs		
Interest Expense	0	(61,895)



Notes to the Financial Statements (continued)

	30 June 2007 A\$	30 June 2006 A\$
5. INCOME TAX		
Major components of income tax expense for the years ended 30 June 2007 and 30 June 2006		
Income Statement		
<i>Current income tax</i>		
Current income tax charge	(453,745)	(291,233)
Loss not recognised	158,452	33,358
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	295,293	257,875
Income tax expense reported in income statement	<u>0</u>	<u>0</u>
Statements of changes in equity		
<i>Deferred income tax relating to items charged or credited directly to equity</i>		
IPO costs deductible over 5 years	(78,593)	(287,223)
Timing Differences not Recognised	78,593	287,223
Income tax cost/benefit reported in equity	<u>0</u>	<u>0</u>
Income tax expense		
<i>A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 30 June 2007 and 2006 is as follows:</i>		
Accounting profit (loss) before tax	(466,953)	(135,077)
At the statutory income tax rate of 30% (2006:30%)	(140,086)	(40,523)
Expenditure not allowable for income tax purposes	1,962	585
Share based payments	50,144	150,017
Adjustments taken against equity	(78,593)	(85,130)
Research and Development Tax Concession	-	(44,356)
Deferred tax asset not brought to account	158,452	33,358
Adjustments to current tax in respect of prior years	-	-
Other	(8,121)	(14,221)
Income tax expense reported in income statement	<u>0</u>	<u>0</u>



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Notes to the Financial Statements (continued)

	Balance Sheet		Income Statement	
	30 June 2007 \$A	30 June 2006 \$A	30 June 2007 \$A	30 June 2006 \$A
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
<i>Deferred income tax liabilities</i>				
Capital Allowance and Depreciation Differences	(16,181)		16,181	
Capitalised R&D expenditure	(617,483)	(298,956)	318,527	298,956
Accrued interest receivable	(3,354)	(9,108)	(5,573)	9,108
Capital raising costs			0	(1,001)
	<u>(637,018)</u>	<u>(308,064)</u>		
<i>Deferred income tax assets</i>				
Accrued expenses	29,434	7,782	(21,651)	2,032
Capital allowances	8,567	12,321	3,754	(4,730)
Capital raising costs deducted over five years	221,704	306,833	85,130	(19,611)
Employee leave entitlements	88,104	65,804	(22,300)	(35,931)
Potential tax losses	1,152,636		(1,152,636)	
Deferred tax asset not recognised	(863,427)	(84,676)	1,107,704	49,638
Gross deferred income tax assets	<u>637,018</u>	<u>308,064</u>		
Deferred income tax charge			<u>0</u>	<u>0</u>

As at 30 June 2007, Seeing Machines has accumulated tax losses of \$3.8m. which includes a current year tax loss of \$1.5m.

Use of tax losses in the future is subject to satisfaction of the relevant statutory loss recoupment rules.



Notes to the Financial Statements (continued)

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	30 June 2007 A\$	30 June 2006 A\$
Loss after tax from continuing operations attributable to members	(466,953)	(135,077)
	30 June 2007 No	30 June 2006 No
Weighted average number of ordinary shares for basic earnings per share	256,114,460	227,984,528
Effect of dilution:		
Share options	0	0
Weighted average number of ordinary shares adjusted for the effect of dilution	256,114,460	227,984,528

7. DIVIDENDS PAID AND PROPOSED

No dividends or distributions have been made to members during year ended 30 June 2007 and no dividends or distributions have been recommended or declared by the directors in respect of the year ended 30 June 2007.



Notes to the Financial Statements (continued)

	30 June 2007 A\$	30 June 2006 A\$
8. CASH AND CASH EQUIVALENTS		
(a) Reconciliation of cash flow from operations with loss from ordinary activities after income tax		
Net loss	(466,953)	(135,077)
Non-cash items		
Amortisation of non-current assets	129,819	60,761
Depreciation of non-current assets	157,128	100,887
Borrowing costs capitalised	0	(21,526)
Share based payments	167,145	500,058
Changes in assets and liabilities		
Decrease/(increase) in other current assets	4,555	446,337
Decrease/(increase) in receivables	288,560	(346,977)
Decrease/(increase) in inventories	(7,202)	(30,271)
(Decrease)/increase in employee benefits	28,558	65,362
(Decrease)/increase in deferred revenue	1,252,744	397,996
(Decrease)/increase in payables	50,769	(325,324)
Net cash flows from/(used in) operating activities	1,605,123	712,226
(b) Reconciliation of cash		
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:		
CASH AND CASH EQUIVALENTS		
Cash on hand	600	300
Cash at bank	317,449	157,636
Cash deposit	1,041,879	2,234,417
Term deposit	15,500	14,700
	1,375,428	2,407,053
(c) Financing facilities available		
At reporting date, there was \$2,700 business credit card facility available but remained unused. The company's term deposit is pledged as security for the credit card facility.		



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Notes to the Financial Statements (continued)

	30 June 2007 A\$	30 June 2006 A\$
9. TRADE AND OTHER RECEIVABLES		
Trade Debtors	329,282	593,354
Goods and services tax	0	8,202
Other Debtors	21,531	37,817
	350,813	639,373
Trade receivables are non-interest bearing and are generally on 30-90 day terms.		
10. INVENTORIES		
At cost:		
Finished products	2,624	52
Raw materials	133,947	129,318
	136,571	129,370
11. OTHER CURRENT ASSETS		
Prepayments	34,825	39,381
	34,825	39,381



Notes to the Financial Statements (continued)

12. PROPERTY, PLANT AND EQUIPMENT

	<i>Office Furniture, Fittings and Equipment A\$</i>	<i>Research and Development Software and Equipment A\$</i>	<i>Property, Plant and Equipment A\$</i>
Year ended 30 June 2007			
At 1 July 2006, net of accumulated depreciation and impairment	165,808	85,840	251,648
Additions	88,202	50,070	138,272
Disposals	(2,829)	0	(2,829)
Impairment	0	0	0
Depreciation charge for the year	(78,547)	(63,591)	(142,138)
Net of accumulated depreciation and impairment	<u>172,634</u>	<u>72,319</u>	<u>244,953</u>
At 30 June 2007			
Cost	483,114	505,611	988,725
Accumulated depreciation and impairment	(310,480)	(433,292)	(743,772)
Net carrying amount	<u>172,634</u>	<u>72,319</u>	<u>244,953</u>
At 1 July 2005			
Cost	313,894	384,467	698,362
Accumulated depreciation and impairment	(202,789)	(321,237)	(524,026)
Net carrying amount	<u>111,105</u>	<u>63,231</u>	<u>174,336</u>
Year ended 30 June 2006			
At 1 July, net of accumulated depreciation and impairment	111,105	63,231	174,336
Additions	107,128	71,073	178,202
Impairment	0	0	0
Depreciation charge for the year	(52,425)	(48,464)	(100,890)
Net of accumulated depreciation and impairment	<u>165,808</u>	<u>85,840</u>	<u>251,648</u>
At 30 June 2006			
Cost	421,023	455,541	876,563
Accumulated depreciation and impairment	(255,214)	(369,701)	(624,916)
Net carrying amount	<u>165,808</u>	<u>85,840</u>	<u>251,648</u>



Notes to the Financial Statements (continued)

13. INTANGIBLE ASSETS

	<i>Development Costs A\$</i>	<i>Patents, Licenses and Trademarks A\$</i>	<i>Intangible Assets A\$</i>
Year ended 30 June 2007			
At 1 July 2006, net of accumulated amortisation and impairment	1,404,971	221,240	1,626,211
Additions	2,424,279	83,428	2,507,707
Impairment	0	0	0
Amortisation for the year	(109,779)	(26,706)	(136,485)
Net of accumulated amortisation and impairment	<u>3,719,471</u>	<u>277,962</u>	<u>3,997,433</u>
At 30 June 2007			
Cost	3,875,011	367,014	4,242,025
Accumulated amortisation and impairment	(155,540)	(89,052)	(244,592)
Net carrying amount	<u>3,719,471</u>	<u>277,962</u>	<u>3,997,433</u>
At 1 July 2005			
Cost (gross carrying amount)	0	289,548	289,548
Accumulated amortisation and impairment	0	(47,345)	(47,345)
Net carrying amount	<u>0</u>	<u>242,203</u>	<u>242,203</u>
Year ended 30 June 2006			
At 1 July 2005, net of accumulated amortisation and impairment	0	242,203	242,203
Additions	1,450,731	56,537	1,507,268
Disposals	0	(62,500)	(62,500)
Impairment	0	0	0
Amortisation for the year	(45,760)	(15,000)	(60,760)
Net of accumulated amortisation and impairment	<u>1,404,971</u>	<u>221,240</u>	<u>1,626,211</u>
At 30 June 2006			
Cost	1,450,731	283,586	1,734,317
Accumulated amortisation and impairment	(45,760)	(62,346)	(108,106)
Net carrying amount	<u>1,404,971</u>	<u>221,240</u>	<u>1,626,211</u>



Notes to the Financial Statements (continued)

14. SHARE-BASED PAYMENTS

Employee Share Option Scheme (ESOS)

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

Most of the options on issue at the end of the year ended 30 June 2005 were under the previous ESOS which remains active. Under this scheme options vest in tranches based on the completion of one year, two years and three years service. The options granted to the CEO and the Operations Manager vested in tranches based on the success of the IPO. The options granted to ANU researchers vest on the basis of project milestones and these options were not issued under an ESOS scheme. A new scheme was implemented on 28 June 2006 and options granted under this scheme are included in the total of options outstanding as at the date of the report. These options were granted on 1 July 2006. The basis of this plan is that:

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

The fair value of options is determined by using the 'Hull White' method using a trinomial lattice model. The company has options on issue that were granted on the dates with exercise prices as follows:

- 23/11/2005 exercise price 5.13 cents each;
- 23/11/2005 exercise price 7.5 cents each;
- 27/3/2006 exercise price 5.13 cents each; and
- 1/7/2007 exercise price 8.44 cents each.

The key inputs to this model to determine fair value for each grant date are:

Input	23/11/2005 @ 5.13c	23/11/2005 @ 7.5c	27/3/2006 @ 5.13c	1/7/2007 @ 8.44c
Share price at grant date	\$0.0750	\$0.0750	\$0.0750	\$0.0840
Options exercise price	5.13c	7.5c	5.13c	8.44c
Risk free interest rate	5.34%	5.34%	5.25%	4.64%
Expected life of the options	3.4 yrs	4.1yrs	2.5 yrs	5.7 yrs
Dividend yield	0%	0%	0%	0%
Exercise multiple	2.2	2.2	2.2	2.2
Volatility	35%	35%	45%	45%

The expense recognised in the income statement in relation to share-based payments is disclosed in note 4(d).

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) in cents, of and movements in, share options issued during the year:-



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Notes to the Financial Statements (continued)

	2007	2007	2006	2006
	No.	WAEP A\$	No.	WAEP A\$
Outstanding at the beginning of the year	21,297,764	6.762 c	295	\$2,308.99
Forfeited during the year	(2,916,764)	7.414 c	(36)	\$2,308.99
Cancelled	0	0	(259)	\$2,308.99
Reissue of options during the year	0	0	5,342,405	5.130 c
Granted during the year	4,027,265	8.440 c	16,769,560	7.203 c
Exercised during the year	(292,398)	5.130 c	(814,201)	5.130 c
Expired during the year	0	0	0	0
Outstanding at the end of the year	22,115,867	7.003 c	21,297,764	6.762 c

The fair value of options granted during the year ended 30 June 2007 is 3.8 cents per option for those vesting on 31 December 2007 and 4.1 cents per option for those vesting on 30 June 2009. The outstanding balance as at 30 June 2007 is represented by:

Options over ordinary shares with an exercise price of 8.44 cents each, exercisable upon meeting the above conditions and until relevant expiry dates	2,014,217	
Options over ordinary shares with an exercise price of 7.5 cents each, exercisable upon meeting the above conditions and until relevant expiry dates	14,665,855	14,665,700
Options over ordinary shares with an exercise price of 5.13 cents each, exercisable upon meeting the above conditions and until relevant expiry dates	5,435,795	6,632,064
	<u>22,115,867</u>	<u>21,297,764</u>

The weighted average remaining contracted life for the above options outstanding at 30 June 2007 is 4.2 years (2006:3.3 years).

The range of exercise prices for options outstanding at the end of the year was \$0.0513 - \$0.0844 (2006: \$0.0513 - \$0.0750).

The weighted average fair value of options granted during the year was \$0.038 (2006: \$0.034).



Notes to the Financial Statements (continued)

	30 June 2007 A\$	30 June 2006 A\$
15. TRADE AND OTHER PAYABLES		
Trade creditors	198,322	178,540
Other creditors and accrued expenses	361,985	376,774
Annual Leave	196,429	150,652
	756,736	705,966

16. PROVISIONS

	<i>Long Service Leave A\$</i>	<i>Total Provisions A\$</i>
At 1 July 2006	68,693	68,693
Arising during the year	28,558	28,558
Utilised	0	0
Unused amounts reversed	0	0
At 30 June 2007	97,251	97,251
Current 2007	0	0
Non-current 2007	97,251	97,251
	97,251	97,251
Current 2006	0	0
Non-current 2006	68,693	68,693
	68,693	68,693

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments, comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.



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Notes to the Financial Statements (continued)

Cash flow interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long term interest income potential.

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the Company's functional currency.

Approximately 80% of the Company's sales are denominated in currencies other than AUD, whilst almost 95% of costs are denominated in AUD. The Board will continue to monitor exposure to foreign currency risk and may consider using forward currency contracts to eliminate the currency exposures on any individual transactions in excess of \$AUD 100,000 for which payment is anticipated more than one month after the Company has entered into a firm commitment for a sale or purchase.

The forward currency contracts will be in the same currency as the hedged item.

It will be the Company's policy not to enter into forward contracts until a firm commitment is in place. It will be the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

At 30 June 2007, the Company had not entered into any forward contracts to hedge its foreign currency sales for which firm commitments existed at the balance sheet date.

Commodity price risk

The Company's exposure to price risk is minimal.

Credit risk

The Company trades only with recognised, creditworthy third parties.

It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Company.

For transactions that are not denominated in AUD, the Company does not offer credit terms without the specific approval of the Operations Manager. With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Company trades only with recognised third parties, there is no requirement for collateral.

Liquidity risk



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Notes to the Financial Statements (continued)

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of finance leases and hire purchase contracts.

At 30 June 2007, the Company had no significant debt.

18. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments recognised in the financial statements.

The fair value of the equity portion of the employee share option shares is estimated using a trinomial-lattice option pricing methodology.

Market values have been used to determine the fair value of listed available-for-sale investments.

The fair values of other financial assets have been calculated using market interest rates.

	Carrying Amount 2007 A\$	Carrying Amount 2006 A\$	Fair Value 2007 A\$	Fair Value 2006 A\$
Financial Assets				
Cash	1,375,428	2,407,053	1,375,428	2,407,053
Trade Receivables	350,813	639,373	350,813	639,373
Other financial assets	34,825	39,381	34,825	39,381
Financial liabilities				
<i>On Balance Sheet</i>				
Trade payables	756,736	555,314	756,736	555,314
<i>Off balance sheet</i>				
Contingencies	0	0	0	0



Notes to the Financial Statements (continued)

Contingencies

The Company has assessed the potential financial liabilities that may arise from certain contingencies disclosed in this note 18. No material losses are anticipated in respect of any of those contingencies and the fair value disclosed above is the directors' estimate of amounts that would be payable by the Company as consideration of the assumption of those contingencies by another party.

Interest Rate Risk

At 30 June 2007 the Company held \$1,372,315 in cash deposit accounts with \$15,500 of this in a term deposit with a period to maturity of 4 months and 21 days. All other cash deposits are at call. The weighted average interest rate of deposits at call and maturing within 12 months was 5.56% (2006:maturing within 12 months or and call and 5.376%).

19. COMMITMENTS AND CONTINGENCIES

The Company has no finance leases or hire purchase contracts for items of plant and machinery.

The Company has two Commercial Property Leases which have remaining terms of less than one year.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	30 June 2007	30 June 2006
	A\$	A\$
(a) Operating Lease (non-cancellable)		
Minimum lease payments:		
- not later than one year	5,186	35,787
- later than one year and not later than five years	0	0
Aggregate lease expenditure contracted for but not provided for at reporting date	5,186	35,787
(b) Expenditure commitments		
Estimated licence expenditure contracted for at reporting date, but not provided for, payable:		
- not later than one year	35,000	65,000
- later than one year and not later than five years	0	0
	35,000	65,000



Notes to the Financial Statements (continued)

20. RELATED PARTY DISCLOSURE

(a) Director-related entity transactions

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

For the period 18 October 2006 to 30 June 2007 amounts totalling \$139,457 were paid to ITL Design and Manufacturing Limited a subsidiary of ASX listed ITL Limited, an entity in which Non-Executive Director William Mobbs holds a significant interest. At 30 June 2007 \$6,160 was owing to ITL Design and Manufacturing Limited. ITL Design and Manufacturing Limited has been contracted by the company since September 2005 to undertake industrial design and prototyping work for the TrueField Analyzer product.

(b) Equity instruments of directors

Interest at balance date:

Interest in the equity instruments of Seeing Machines Ltd held by directors of the company and their director-related entities:

	Ordinary shares fully paid		Options over ordinary shares		Convertible Notes	
	2007 Number	2006 Number	2007 Number	2006 Number	2007 Number	2006 Number
A. Zelinsky ¹	85,594,176	87,417,493	-	-	-	-
R. Sale ²	1,175,743	1,175,743	-	-	-	-
A. Kinnear ³	990,099	990,099	-	-	-	-
N. Cerneaz	391,914	391,914	12,752,917	12,752,917	-	-
D. Gaul ⁴	1,000,000	1,000,000	-	-	-	-

1. The interests disclosed for Alexander Zelinsky relates to Ordinary Shares held by JATS Technology Pty Ltd, a company in which he is interested in 25% of its issued shares at 30 June 2007.
2. Rob Sale's Ordinary Shares are held by Caffé Pty Ltd as trustee for the R C Sale Superannuation Fund.
3. Anthony Kinnear's Ordinary Shares are held by Ezaspi Pty Ltd, a company wholly owned by Ritmarn Pty Ltd (the trustee of the Kinnear family trust). Anthony Kinnear is a director of Ritmarn Pty Ltd. Anthony Kinnear ceased as a director of Seeing Machines on 30 November 2006.
4. David Gaul's Ordinary Shares are held by Jaiclimb Pty Limited



Notes to the Financial Statements (continued)

(c) Equity instruments of other related parties

Interest at balance date:

Interest in the equity instruments of Seeing Machines Ltd held by other related parties:

	Ordinary shares fully paid		Options over ordinary shares		Convertible Notes	
	2007 Number	2006 Number	2007 Number	2006 Number	2007 Number	2006 Number
Paula Kay Sale ¹	3,939,769	3,939,769	-	-	-	-

- This interest relates to shares held by Paula Kay Sale the wife of Rob Sale.

21. EVENTS AFTER THE BALANCE SHEET DATE

On the 21st of July 2007 the Directors of the company resolved to undertake a capital raising to support the commercialization of the company's products.

The capital raising was conducted in September via a selected placing of ordinary shares raising £1,287,130 (A\$3,083,685) in funds (before expenses). A further placing of ordinary shares to directors and staff following the release of this report is expected to bring the total funds raised to £1,400,000 (A\$3,354,097) before expenses.

In August 2007 the company received marketing clearance from the United States Food and Drug Administration (FDA) for its medical device the TrueField Analyzer® (TFA). This approval satisfies a major regulatory hurdle for the commercialization of the device.

22. AUDITORS REMUNERATION

	30 June 2007 A\$	30 June 2006 A\$
Remuneration for:		
- an audit or review of the financial report of the company	50,000	66,323
- tax compliance services	76,931	32,871
	126,931	99,194



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Notes to the Financial Statements (continued)

23. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

James Fulton Muir, AO	Chairman (non-executive)
Nicholas Cerneaz	Chief Executive
David Gaul	Director (non-executive)
Anthony Kinnear	Director (non-executive) – retired 30 November 2006
William Mobbs	Director (non-executive) – appointed 18 October 2006
Rob Sale	Director (non-executive)
Trent Victor	Director (non-executive)
Alexander Zelinsky	Director (non-executive)

(ii) Executives

Belinda Burgess	Operations Manager
Lorrae Collins	Chief Financial Officer
Nick Langdale-Smith	Sales and Marketing Director
Jochen Heinzmann	Automotive Business Manager
Tim Edwards	Principal Engineer
Sebastian Rougeaux	Principle Research Scientist

(b) Compensation of Key Management Personnel

	30 June 2007 A\$	30 June 2006 A\$
Short term employee benefits	1,101,037	1,004,397
Post Employment Benefits	84,873	69,620
Long Term	-	-
Share Based Payment Options	150,419	331,112
	1,336,329	1,405,129



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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 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of the performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and 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

Director

Canberra, 24th September 2007

Independent auditor's report to the members of Seeing Machines Limited

We have audited the accompanying financial report of Seeing Machines Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

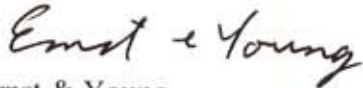
Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Seeing Machines Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Seeing Machines Limited at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.



Ernst & Young



G J Knuckey
Partner
Canberra
24 September 2007