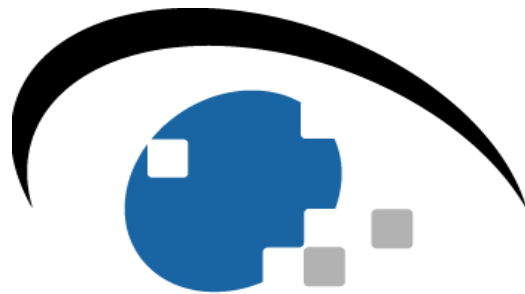


# visionary technology





**seeingmachines**

ABN 34 093 877 331

**Seeing Machines Limited**

**Half-year financial report**

**For the half-year ended  
31 December 2009**



Seeing Machines Limited – Half-Year Report  
ABN 34 093 877 331

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## Directors' Report

Your directors submit their report for the half-year ended 31 December 2009.

### Directors

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

William Mobbs	Non Executive Chairman
Nicholas Cerneaz	Executive Director
David Gaul	Non Executive Director
James Fulton Muir, AO	Non Executive Director
Robert Sale	Non Executive Director
Trent Victor	Non Executive Director
Alexander Zelinsky	Non Executive Director

### Review and results of Operations

#### Review of the 1st half of the 2010 financial year

Following the slowdown that occurred through the 2009 financial year as a result of the recent global financial downturn, we have recently seen a recovery in the Company's revenue streams. Revenue growth of 25% was recorded when compared to the 6 month period to 30 June 2009.

The Company made a loss of A\$402,568 for the six months to 31 December 2009 compared to a profit of A\$358,099 for the equivalent period to 31 December 2008. In line with the revision of asset carrying values reported in the FY2009 full year accounts released on 23 September 2009 and the operating conditions prevailing during the six months to 31 December 2009, the Company has expensed all development costs through this current period. This significantly impacts any comparison between the two periods. In the equivalent period to 31 December 2008 (with resulting profit of A\$358,099) development costs of A\$907,705 were capitalised. By contrast in the current period to 31 December 2009 all development costs totalling A\$600,164 were expensed. If these development costs had been treated in the same way in both periods then the results would have been as follows:

Basis for comparison	31 December 2009	31 December 2008
Profit/(Loss) as reported	(A\$402,568)	A\$358,099
Profit/(Loss) with development costs expensed in both periods	(A\$402,568)	(A\$549,606)

Operational highlights for the half-year include:

- the emergence of the resources sector as a strong market for the DSS product suite and a number of successful installations in this sector;
- the maturation of the DSS product suite;
- the successful partnership with EyeTracking Inc enhancing the faceLAB business with their EyeWorks analysis suite; and
- the continuing upward trend in sales of the faceAPI Developer licences and a number of Production licence sales.

### Financial Results

Revenue from product sales for the six months to 31 December 2009 was A\$2,321,616 (2008: A\$2,835,607). While revenues for the period were lower compared to 2008, (which included a one-off license fee payment of US\$1,000,000), these represented growth of 25% compared to revenues for the six months to 30 June 2009. Other income for the period was A\$79,646 compared to A\$402,011 in 2008, primarily due to adverse foreign exchange fluctuations.



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## Directors' Report (continued)

Net expenditure for the half-year was A\$2,803,830, down A\$75,106 from the A\$2,878,936 net expenditure for the equivalent six month period to 31 December 2008. **Note however, net expenditure for the current period includes all development expenses, whilst the prior equivalent six month period to 31 December 2008 does not include A\$907,705 of development costs which were capitalised.** The strong containment of costs through the 2009 calendar year that underpins this improved result is a reflection of the restructure of the business undertaken in early 2009 in light of the global financial downturn and the resultant slowing of revenue growth anticipated at that time.

The Net Loss for the six months to 31 December 2009 was A\$402,568 compared to a Net Profit of A\$358,099 for the equivalent six month period to 31 December 2008. **Note again that all development costs have been expensed during the current period, whilst they were capitalized during the prior period, a change which significantly impacts direct comparisons between the periods.**

### Operational Highlights

#### DSS

The 6 month period to 31 December 2009 saw significant activity in the DSS business, particularly in the mining and resources sectors. A number of new DSS clients were established at multiple new mining operations during the period. These new installations have typically been the initial pilot phase of wider deployments as anticipated by the respective client. A portion of the DSS during the period has facilitated the integration of the DSS product suite into the client's global operations, and we anticipate a number of those initial pilots will mature into substantial commercial deployments during the next 6 months and beyond.

Revenue for the DSS business for the half-year to 31 December 2009 was A\$346,259. The Directors anticipate strong revenue growth in the current half due to the large number of opportunities available to be converted to sales including the recently announced deals with Freeport McMoRan Copper and Gold Inc (announced 12 February 2010) and BHP Billiton (announced 17 March 2010).

The Company is well advanced in negotiations for a number of other DSS deals, and is also progressing distributor arrangements in a number of countries to service the resources sector including South Africa, Botswana, Brazil and Chile. The results of these negotiations will be announced to investors in due course.

The DSS product itself has developed substantially during the period, and as evidenced by the recently announced commercial deals we now offer a product that is proven to solve real commercial issues around driver fatigue and distraction at an affordable price point.

During the next 6 months the Company intends to focus on:

- converting a number of the existing DSS opportunities into sales;
- successful deployments for existing customers; and
- growing the pipeline of opportunities through the appointment of distributors to cover Africa and South America; and
- increasing the direct sales force to target the resources sector in Australasia and North America .

#### TrueField Analyzer

TrueField Analyzer (TFA) was debuted at the American Academy of Ophthalmology (AAO) Annual Meeting in San Francisco in October 2009. The next phase of the commercialization of the TFA is through a program of independent luminary evaluations of the device, prior to the full scale commercial introduction of the device. In the final preparations for that program a potential shortcoming in the TFA's stimulus delivery mechanism has been recently identified. The luminary evaluation program is currently on hold, and will remain so, until this matter is fully identified and resolved. The matter is being addressed by collaborative work between the Company and our TFA colleagues at the Australian National University's Research School of Biology, within which this ongoing work is supported through a number of academic grants.

In anticipation of the release of the TFA, the Company has engaged in extensive regional market development including the evaluation of and negotiation with prospective distribution and channel partners, a number of whom have followed the development of the TFA since inception. The intention is to enter into agreement with one or more of these partners who have the capacity to drive the introduction of the TFA across the global ophthalmic marketplace.



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## Directors' Report (continued)

### ***faceAPI***

faceAPI developer licence sales have continued to gather momentum with growing sales of developer licences and a number of production licence sales during the period. faceAPI revenue for the six months to 31 December 2009 was A\$195,033, representing an increase in excess of 90% from 2008.

The Company's strategy for faceAPI continues to focus on deriving revenues from the product through sales of the developer licence, and through sales of production licences which are required for applications using faceAPI that need to be distributed to end users.

The Company has developed an extensive opportunity pipeline for production licences through the period, and will continue to develop the product to address the needs of this growing market. The Company is in discussions with a number of "household name" companies that are interested in licensing the faceAPI to use in their own products.

### ***faceLAB***

faceLAB achieved revenues of A\$1,713,634 for the six months to 31 December 2009 compared with A\$1,121,633 in 2008.

The period has seen a number of large multi system sales and a resurgence in sales from Asia which had slowed in recent years. In January 2010 the Company was advised by the University of Nottingham that it had won an open tender for 8 eye tracking systems displacing one of our key competitors whose product was already in use by the customer.

We continued to build on our exclusive partnership with Eye Tracking Inc., whose EyeWorks product, a highly optimized and advanced faceLAB data analysis environment, is integrated with and offered alongside our faceLAB product suite. It provides our clients with an enhanced user experience and opens the faceLAB suite to exciting new market opportunities, particularly in the expanding on-screen *marketing usability* industries.

### **Auditor's Independence Declaration**

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

Signed at Canberra this 22nd day of March 2010 in accordance with a resolution of the directors made pursuant to section 306(3) of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to be "W Mobbs".

William Mobbs  
Chairman

A handwritten signature in black ink, appearing to be "N Cerneaz".

Nick Cerneaz  
Chief Executive Officer  
and Director



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

In relation to our review of the financial report of Seeing Machines Limited for the half-year ended 31 December 2009 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive, flowing script.

Ernst & Young

A handwritten signature in black ink that reads 'James Palmer' in a cursive, flowing script.

James Palmer  
Partner  
22 March 2010



Seeing Machines Limited – Half-Year Report  
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## Statement of Financial Position

As at 31 December 2009	Note	Consolidated	
		31 December 2009	30 June 2009
		A\$	A\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	620,228	679,166
Trade and other receivables		495,869	748,550
Inventories		198,587	259,728
Other current assets		45,040	44,972
<b>Total Current Assets</b>		<b>1,359,724</b>	<b>1,732,416</b>
<b>Non-current Assets</b>			
Property, plant and equipment		255,508	302,549
Intangible assets		439,410	417,361
Capitalised development costs		601	-
<b>Total Non-current assets</b>		<b>695,519</b>	<b>719,910</b>
<b>TOTAL ASSETS</b>		<b>2,055,243</b>	<b>2,452,326</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		530,156	606,370
Provisions		221,930	232,571
<b>Total Current liabilities</b>		<b>752,086</b>	<b>838,941</b>
<b>Non-current liabilities</b>			
Provisions		72,492	73,602
<b>Total Non-current liabilities</b>		<b>72,492</b>	<b>73,602</b>
<b>TOTAL LIABILITIES</b>		<b>824,578</b>	<b>912,543</b>
<b>NET ASSETS</b>		<b>1,230,665</b>	<b>1,539,783</b>
<b>EQUITY</b>			
Contributed equity		9,646,776	9,646,776
Accumulated losses		(9,290,161)	(8,887,593)
Reserves		874,050	780,600
<b>TOTAL EQUITY</b>		<b>1,230,665</b>	<b>1,539,783</b>

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



Seeing Machines Limited – Half-Year Report  
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## Statement of Comprehensive Income

For the half-year ended 31 December 2009	Note	Consolidated 31 December 2009 A\$	Consolidated 31 December 2008 A\$
<b>Continuing operations</b>			
Sale of goods and licence fees		2,278,550	2,815,965
Rendering of services		43,066	19,642
<b>Revenue</b>		<b>2,321,616</b>	<b>2,835,607</b>
Cost of Sales		(526,149)	(468,880)
<b>Gross Profit</b>		<b>1,795,467</b>	<b>2,366,727</b>
Other income	4	79,646	402,011
Research and Development Expenses		(682,042)	(475,195)
Distribution Expenses		(296,923)	-
Marketing expenses		(493,425)	(854,899)
Occupancy expenses		(262,496)	(218,391)
Administration expenses		(376,671)	(852,392)
Other expenses	4	(166,124)	(9,179)
<b>(Loss)/Profit from continuing operations before income tax</b>		<b>(402,568)</b>	<b>358,682</b>
Income tax expense		-	(583)
Loss from continuing operations after income tax		(402,568)	358,099
<b>Net (loss)/profit for the period</b>		<b>(402,568)</b>	<b>358,099</b>
<b>Other comprehensive income</b>			
Cash flow hedges:			
Transferred to statement of comprehensive income		-	(12,297)
Foreign Currency Translation		50,732	(21,075)
<b>Other comprehensive income</b>		<b>50,732</b>	<b>(33,372)</b>
<b>Total Comprehensive Income Net of Tax</b>		<b>(351,836)</b>	<b>324,727</b>
<b>(Loss)/Profit per share (cents per share)</b>			
· basic for loss for the half year attributable to ordinary equity holders of the company		(0.129)	0.115
· diluted for loss for the half year attributed to ordinary equity holders of the company		(0.129)	0.115

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



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## Statement of changes in equity

### CONSOLIDATED

FOR THE PERIOD ENDED 31 DEC 2009	Contributed Equity	Accumulated Losses	Foreign Currency Translation	Employee Equity Benefits Reserve	Cash flow Hedge Reserve	Total Equity
Note	A\$	A\$	A\$	A\$	A\$	A\$
<b>At 1 July 2008</b>	9,646,776	(3,278,481)	-	709,845	12,297	7,090,437
Profit for the half year	-	358,099	-	-	-	358,099
Other comprehensive income	-	-	(21,075)	-	(12,297)	(33,372)
<b>Total comprehensive income</b>	-	358,099	(21,075)	-	(12,297)	324,727
<b>Transaction with owner in their capacity as owner</b>						
Share based payment	-	-	-	18,337	-	18,337
<b>At 31 December 2008</b>	9,646,776	(2,920,382)	(21,075)	728,182	-	7,433,501
<b>At 1 July 2009</b>	9,646,776	(8,887,593)	42,268	738,332	-	1,539,783
Loss for the half year	-	(402,568)	-	-	-	(402,568)
Other comprehensive income	-	-	50,732	-	-	50,732
<b>Total comprehensive income</b>	-	(402,568)	50,732	-	-	(351,836)
<b>Transaction with owner in their capacity as owner</b>						
Share based payment	-	-	-	42,718	-	42,718
<b>At 31 December 2009</b>	9,646,776	(9,290,161)	93,000	781,050	-	1,230,665

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



## Statement of Cashflows

	Consolidated	Consolidated
For the half year ended 31 December 2009	31 December 2009	31 December 2008
Note		
<b>Cash flows from operating activities</b>		
Receipts from customers	2,459,392	2,854,633
Grants received	50,000	-
Payment to suppliers and employees	(2,568,285)	(2,559,400)
Interest received	7,816	80,769
Income Tax	-	(583)
<b>Net cash flows (used in) / from operating activities</b>	<b>(51,077)</b>	<b>375,419</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of plant and equipment	-	454
Purchase of plant and equipment	(2,365)	(173,420)
Payments for intangible assets	(56,228)	(69,902)
Payments for research and development costs	-	(1,225,842)
<b>Net cash flows used in investing activities</b>	<b>(58,593)</b>	<b>(1,468,710)</b>
Net decrease in cash and cash equivalents	(109,670)	(1,093,291)
Net foreign exchange differences	50,732	(21,075)
Cash and cash equivalents at beginning of period	679,166	2,771,247
<b>Cash and cash equivalents at end of period</b>	<b>620,228</b>	<b>1,656,881</b>

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The above cash flow statement should be read in conjunction with the accompanying notes.



Seeing Machines Limited – Half-Year Report  
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## Notes to the Financial Statements

For the half-year ended 31 December 2009

### 1. Basis of Preparation and accounting policies

The financial report of Seeing Machines Limited (the Company) for the half-year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 24<sup>th</sup> March 2010.

Seeing Machines Limited (the parent) 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 have not changed since the last annual report for the financial year ended 30 June, 2009.

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, and AASB 134 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and considered together with any public announcements made by Seeing Machines Limited during the half-year ended 31 December 2009.

The condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value. Cost is based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2009 annual financial report for the financial year ended 30 June 2009.

It should be noted that the comparison figures for the half-year ended 31 December 2008 include the capitalization of development costs whereas the Company has on the basis of operating conditions prevailing at the time, taken the decision to expense development costs during both the FY2009 period reported in the Company's 2009 annual financial report and this report for the six month period ended 31 December 2009.

### 2. Going Concern Basis of Accounting

The financial report has been prepared on the going concern basis. The Group has made a loss for the half year of \$402,568. The Group has accumulated losses of \$9,290,161. The balance of cash and cash equivalents at 31 December 2009 is \$620,228. The ability of the Group to continue as a going concern is dependent on the Group's ability to meet its debts as and when they fall due. The Group has prepared cash flow forecasts for the next twelve months that show that the Group will be able to meet its debts as and when they fall due. These cash flow forecasts are based on a number of assumptions in particular about the Group's ability to meet projected sales levels.

The Directors are confident that the Group will meet the projected sales levels and on this basis the Directors believe the adoption of the going concern basis of accounting is justified. However, should this position change the Group may not be able to pay its debts as and when they fall due and may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustment relating to the recoverability and classification of recorded assets nor to the amount and classification of liabilities that might be necessary should the Group not continue as a going concern.

### 3. Operating Segments

The Group operates in one business segment, being research, development and production of computer vision technology. All of the Company's products DSS, faceLAB, faceAPI and TrueField Analyzer are developed from a common core technology. The products are marketed and sold internationally. All development takes place in Australia.



Seeing Machines Limited – Half-Year Report  
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## Notes to the Financial Statements (continued)

For the half-year ended 31 December 2009

### 4. Revenue, income and expenses

	Consolidated 31-December-09 A\$	Consolidated 31-December-08 A\$
<b>Other Income</b>		
Government grants (export market development)	50,000	-
Deferred grant income	-	38,395
Interest earned	5,128	63,880
Net gain on foreign exchange	-	299,736
Other	24,518	-
	<b>79,646</b>	<b>402,011</b>
<b>Other expenses</b>		
Net loss on foreign exchange	(165,935)	-
Net loss on disposal of property, plant and equipment	(189)	(9,179)
	<b>(166,124)</b>	<b>(9,179)</b>

The Company has for the half-year ended 31 December 2009 reported expenses against the following categories:

- Cost of sales
- Research and development expenses
- Marketing expenses
- Occupancy and facility expenses
- Administrative expenses
- Other expenses

Expenses for the December 31 2008 period have been reclassified to align with the new categories.

### 5. Cash and cash equivalents

	31 December 2009 A\$	30 June 2009 A\$	31 December 2008 A\$
Cash at the end of the financial half-year as shown in the Cashflow Statement is reconciled to the related items in the Balance Sheet as follows:			
<b>CASH AND CASH EQUIVALENTS</b>			
Cash at bank and in hand	553,724	363,078	1,342,531
Short-term deposits	66,504	316,088	314,350
	<b>620,228</b>	<b>679,166</b>	<b>1,656,881</b>

### 6. Dividends paid

No dividends or distributions have been made to members during the half-year reporting period and no dividends or distributions have been recommended or declared by the directors in respect of the half-year reporting period.



Seeing Machines Limited – Half-Year Report  
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## Notes to the Financial Statements (continued)

For the half-year ended 31 December 2009

### 7. Commitments and contingencies (i) Leasing commitments

#### *Operating lease commitments – Group as lessee*

The Group has entered into two commercial leases on property for its Canberra and Sydney offices. The Canberra lease has a five year term with a renewal option of one year. The Sydney lease has a 1 year term.

Future minimum rental payments under non-cancellable operating leases as at 31 December 2009 are as follows:

	Consolidated	
	2009	2008
	A\$	A\$
Within one year	291,557	282,147
After one year but not more than five years	891,960	1,076,400
Balance 31 December	1,183,517	1,358,547

#### *Finance leases and hire purchase commitments – Group as lessee*

The Group has no finance leases or hire purchase commitments for items of property, plant and equipment.

#### *Unfulfilled conditions relating to government grants*

The Group has unfulfilled conditions attaching to government grants. There has been no change to these conditions in the half-year reporting period.

### 8. Events after balance sheet date

On the 12<sup>th</sup> of February 2010 the Company announced its first major deal for the DSS product suite in the mining sector with the signing of a Master Purchasing Agreement (MPA) with Freeport McMoRan Copper and Gold Inc. (Freeport). The MPA is a corporate level agreement establishing the master terms and conditions for the supply of the DSS product suite to Freeport's group of operating companies.

On the 15<sup>th</sup> of March 2010 the Company received the first purchase order following on from the MPA. The purchase order is for the installation of the DSS at the Grasberg mine in Indonesia.

On the 17<sup>th</sup> of March 2010 the Company announced a contract with BHP Billiton subsidiaries for the supply of the DSS product suite into the hauling truck fleet at the Navajo mine in New Mexico. The installation of these units has commenced and will be completed this month.



Seeing Machines Limited – Half-Year Report  
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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 consolidated entity are in accordance with the *Corporations Act 2001*, including:
- (i)** Giving a true and fair view of the financial position as at 31 December 2009 and the performance for the half-year ended on that date of the consolidated entity
  - (ii)** Complying with Accounting Standard AASB134 *Interim Financial Reporting* 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

Chairman

Canberra, 22nd March 2010



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To the members of Seeing Machines Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Seeing Machines Limited, which comprises the condensed statement of financial position as at 31 December 2009, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with 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 half-year 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.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Seeing Machines Limited and the entity it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

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

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Seeing Machines Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'James Palmer'.

James Palmer  
Partner  
Canberra  
22 March 2010