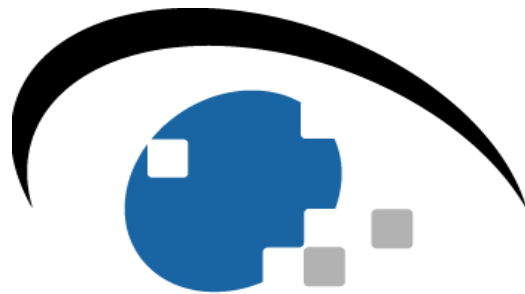


Annual Report 2009/10

visionary technology





seeingmachines

ABN 34 093 877 331

Seeing Machines Limited

Annual Financial Report

**For the year ended
30 June 2010**



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Contents to Financial Report

Corporate Information	2
Directors' Report.....	3
Auditor's Independence Declaration to the Directors of Seeing Machines Limited	12
Statement of Financial Position	13
Statement of Comprehensive Income	14
Statement of Changes in Equity	15
Statement of Cash Flows.....	16
Notes to the Financial Statements	17
1. Corporate Information	17
2. Going Concern basis of accounting	17
3. Summary of significant accounting policies	17
4. Financial risk management objectives and policies	32
5. Significant accounting judgements, estimates and assumptions	36
6. Segment information	37
7. Other Income	40
8. Expenses	40
9. Income Tax.....	41
10. Dividends paid and proposed	43
11. Earnings per share.....	44
12. Parent Entity Information.....	44
13. Current Assets – Cash and Cash Equivalents	45
14. Current Assets – Trade and Other Receivables	45
15. Current Assets - Inventories	46
16. Other Current Assets	46
17. Non-current Assets – Property, Plant and Equipment	47
18. Non-current Assets – Intangible Assets and Development Costs	48
19. Current Liabilities – Trade and Other Payables	49
20. Current Liabilities – Provisions	49
21. Non-current Liabilities – Provisions	50
22. Non-current Liabilities – Government Grants	50
23. Contributed Equity	51
24. Retained Earnings and Reserves	51
25. Cash Flow Statement Reconciliation.....	52
26. Related Party Disclosure.....	52
27. Key management personnel.....	54
28. Share-based payment plans	55
29. Commitments.....	57
30. Contingencies.....	57
31. Events after balance sheet date	57
32. Auditor's remuneration.....	57
Directors' Declaration	58
Independent auditor's report to the members of Seeing Machines Limited	59



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Corporate Information

ABN 34 093 877 331

This annual report covers Seeing Machines Limited as a consolidated entity. The Group's functional and presentation currency is AUD(\$).

A description of the Group'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	William Mobbs Rob Sale Nicholas Cerneaz David Gaul James Fulton Muir, AO Trent Victor Alexander Zelinsky	Non Executive Chairman Deputy Chairman Executive Director Non Executive Director Non Executive Director Non Executive Director Non Executive Director
------------------	--	---

Company Secretary Belinda Burgess

Registered office Level 1, 11 Lonsdale Street
Braddon ACT 2612

Principal place of business Level 1, 11 Lonsdale Street
Braddon ACT 2612

Phone: + [61] 2 6103 4700
Fax: + [61] 2 6103 4701
Email: info@seeingmachines.com

Share Register Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067

Seeing Machines Limited shares are listed on the London Stock Exchange AIM market.

Solicitors Norton Rose Australia
Grosvenor Place, 225 George St
Sydney NSW 2000

Bankers Commonwealth Bank of Australia Limited
University Drive
Canberra ACT 2600

Auditors Ernst & Young
51 Allara Street
Canberra ACT 2600



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Report

Your directors submit their report for the year ended 30 June 2010.

DIRECTORS

The names of the Company's directors in office during the year and until the date of this report are listed below. All directors were in office for this entire period covered by the report

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

REVIEW OF OPERATIONS

Financial Results

Total revenue for the year decreased by A\$756,739 to A\$4,469,032 (2009: A\$5,225,771) whilst revenue from sale of goods and license fees was A\$4,245,850 (2009: A\$4,921,196). The reduction in revenue from sale of goods and licenses was due to a delay in the receipt of orders for the DSS from the road-transport sector. In June and July 2010 the Group received DSS orders from the mining and resource sectors totalling in excess of US\$1.2m all of which will be recognised during the first half of the 2011 financial year. Rendering of services (contract) income of A\$178,939 (2009: A\$96,661) is up due to contract R&D performed for Pillar Vision, Inc. Other income of A\$223,182 (2009: A\$304,575) was down due to less favourable foreign exchange movements on sales and purchases.

Operational expenses for 2010 were A\$6,238,871 up by A\$447,971 on the prior year (2009: A\$5,790,899). Note however 2009 reported operational expenses excluded 2009 development expenses which were included in the total of impairment of development costs. When compared on a like basis, expenses have actually gone down due to lower costs of sales commensurate with lower revenue and the restructuring and expenditure control implemented during 2009 to address the adverse impacts on the business of the global financial crisis.

The Group made a loss of A\$1,769,839 for the year ended 30 June 2010 (2009: loss of A\$5,609,112). The 2009 loss was principally due to the write-down of intangible assets totalling A\$5,043,984. When the 2010 and 2009 results are compared on a like for like basis with development costs for each year being expensed then the comparison is as follows:

	2010	2009
Revenue	4,245,850	4,921,196
Cost of Sales	(1,079,835)	(1,692,104)
Gross Profit	3,166,015	3,229,092
Other Income	223,182	304,575
Net Revenue	3,389,197	3,533,667
Research and Development Expenses	(1,567,704)	(1,921,819)
Distribution Expenses	(520,327)	(411,795)
Marketing Expenses	(1,316,390)	(1,778,612)
Occupancy and facilities expenses	(504,764)	(498,958)
Administration Expenses	(1,182,612)	(1,222,774)
Other Expenses	(66,239)	(9,133)
Profit/(Loss)	(1,769,839)	(2,309,424)



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Report (continued)

The Group had A\$3,904,954 in cash at 30 June 2010 compared to A\$679,166 at 30 June 2009. This increase was due largely to the capital raising activity during the year. Following the capital raising the company was able to significantly increase the level of DSS stock in order to fulfil orders in a timely fashion and to redress a number of salary issues for staff who had sacrificed salary to help the company through the impact of the global financial crisis. Net assets increased similarly; as a result of those activities.

As mentioned above the Company has received a large number of orders for the DSS in June and July 2010 which provide a very strong platform for the 2011 year and it is expected that DSS revenue will exceed its 2010 revenue level in the first half of the year.

Operational Highlights

Highlights for the year ended 30 June 2010 included:

- the Master Purchasing Agreement signed with Freeport McMoRan Copper and Gold Inc ("Freeport") for the supply of the DSS product suite to Freeport's group of operating companies;
- the contract signed with BHP Energy Coal for the Navajo and San Juan mines in New Mexico;
- the contract for the completion of the DSS installation at the Freeport Safford mine in Arizona;
- the strong pipeline of DSS opportunities in the resource sector across Africa, Australia, North and South America.
- the successful placing of 93,649,478 new ordinary shares raising £3.3m at 3.5 pence per share at a 22% premium to the closing share price prior to the raising;
- the continued growth in the sales of the faceAPI Developer licenses and the early Production licenses;
- the continuing revenue stream for the faceLAB product based on the strong partnership with Eye Tracking Inc.

Driver State Solution (DSS)

The DSS achieved revenue of A\$1,132,148 (2009: A\$2,224,810) down by \$1,092,662 (49%) over the prior year. However in 2009 the revenue included a one-off license fee payment of A\$1,151,316 plus maintenance and support payments of A\$604,287, all from one customer representing 79% of the DSS revenue in that year. Through the 2009 financial year the client base and pipeline of DSS opportunities has grown considerably, particularly in the resources and mining sectors.

The strategy for commercialisation of the DSS technology has expanded from a focus on automotive OEM and on-road fleet markets to a strong focus on the global mining and resource sectors. Within these expanded and growing markets the DSS offers an immediate and substantial opportunity for accelerated growth. The Group's strategy is to derive revenue from:

- product (equipment) sales and recurring maintenance;
- specialist services to support the installation of the DSS; and
- specialist consulting, data management, analysis and reporting services.

Seeing Machines is pursuing opportunities in the resource and mining sector either directly or via channel partners in:

- Australia;
- United States;
- Canada;
- Indonesia;
- South Africa;
- Botswana;
- Chile;
- Peru; and
- Brazil.

At 30 June 2010 there were DSS installations in mining and resource applications in the following countries:

- Australia;
- United States;



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Report (continued)

- Indonesia;
- Brazil;
- Chile;
- South Africa; and
- Botswana.

In April 2010 the Company successfully completed a capital raising to provide the required capital to support:

- Expansion of the Company's DSS sales and service capability for the resources sector;
- Development of the next generation of the DSS hardware to:
 - reduce dependencies on expensive sub-components;
 - reduce cost of goods (COGS) to streamline production and increase product margins;
 - increase product ruggedness (tailored specifically to the resources sector) to reduce field support costs;
 - increase competitive barriers to entry;
- Further development and enhancement of the DSSi to:
 - Enhance data management, analysis and reporting offering to increase DSS services and annuity based recurring revenue component of the total DSS offering.

The Company's focus for DSS during 2011 will be to:

- Directly grow the DSS customer and installations base in those countries that we will directly service and support;
- Through channel partners grow the DSS presence in Africa and South America;
- Expand the Company's service and support capability to service the growing customer and installed base;
- Progress DSS hardware and software development projects to support the business objectives.

faceAPI™

faceAPI achieved revenue of A\$506,555 (2009: A\$318,666) up by A\$187,889 (59%) over the prior year. A small number of Production License sales were also closed during the year and there is a strong pipeline of future opportunities for Production Licenses.

Sales of developer licenses have ranged across the target application fields including:

- 3D displays;
- Computer graphics animation;
- Augmented reality;
- Sports training;
- Interactive advertising; and
- Robotics.

In July 2010 the Company announced two important production license contracts for faceAPI:

1. with Canadian company Di-O-Matic, specialising in 3D animation, a license to empower its product *Maskarad* a new family of computer graphic animation tools;
2. with US company Pillar Vision Inc., the leading vendor of basketball training products, a license for Noah Instant the company's new mass market product.

faceLAB®

faceLAB® achieved sales of A\$2,612,874, (2009:A\$2,377,689) up by a\$235,185 (10%) over the prior year. This jump in revenue was helped by a significant number of large multi-system sales and stronger sales out of Japan.

The Company has maintained 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 and has been instrumental in securing a number of sales.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Report (continued)

During 2010 the following customers purchased faceLAB systems:

- VTT Technical Research Centre of Finland;
- University of Montreal;
- University of Nottingham;
- Nagoya University;
- Honeywell;
- United States Federal Aviation Administration;
- Boeing;
- Columbia College Chicago;
- Chrysler.

TrueField Analyzer®

Whilst the 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 prior to the full scale commercial introduction of the device will be through a program of independent luminary evaluations of the device. The luminary evaluations have however been delayed due to the ongoing work to overcome a shortcoming in the TFA's stimulus delivery mechanism.

The luminary evaluation program has been put on hold, and will remain so, until this matter is fully identified and resolved. The shortcoming 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.

The Company's focus has been to support the work of the University's Research School of Biology to resolve these issues prior to further progressing the commercialisation of the TFA. This will continue to be the focus during 2011.

Chief Executive Officer

The Company's Chief Executive Officer for the full financial year to 30 June 2010 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 2010 and at the date of this report is Belinda Burgess.

Staff

At 30 June 2010 the Group had 25 full-time employees and a further 4 part-time employees (up from 26 employees at 30 June 2009).

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
William Mobbs MBA, BSc, MAICD	Chairman and member of the Audit Committee Mr Mobbs is currently a Director, the Interim CEO and a co-founder of ITL Limited, an ASX listed company, with over 16 years experience developing, manufacturing, marketing and selling product into the global medical and healthcare industry. William has a strong track record for successfully turning product R&D into commercial outcomes in the medical and healthcare markets.



Seeing Machines Limited - Annual Report
 ABN 34 093 877 331

Directors' Report (continued)

Name and qualifications	Experience and special responsibilities
Rob Sale	<p>Deputy Chairman and member of the Remuneration Committee</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>
David Gaul	<p>Non-executive director and member of the Nominations Committee</p> <p>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.</p>
James Fulton Muir AO HonDUniv (ANU)	<p>Non-executive director and Chairman of the Audit Committee</p> <p>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.</p>
Dr Trent Victor Ph. D., M. Sc.	<p>Non-executive director and member of the Nomination Committee</p> <p>Dr Victor is Senior Researcher 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 development in Safety Analysis and Human Factors. He 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>



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Report (continued)

Name and qualifications	Experience and special responsibilities
Dr Alexander Zelinsky Ph.D, B.Math(Hons), FIEEE, FTSE, FAICD, FIEAust.	Non-executive director and member of the Remuneration Committee Dr Zelinsky is currently Group Executive, Information Sciences and Technology, and Director, Information Communication Technology (ICT) Centre. Prior to this Alex was a co-founder 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.
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 commercialising 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.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Report (continued)

Principal Activities

The Company's principal activities during the year were:

- development and sale of the DSS Product Suite to detect and manage driver fatigue and distraction, including continued market development to secure sustainable channels to market for the product;
- development and sale of the faceAPI Developer Licenses and the development of commercial opportunities for Production Licenses for applications developed using faceAPI;
- development, sale and distribution of the faceLAB® product;
- continued support for the work of the Australian National University Research School of Biology in finalizing the science underpinning the Company's TrueField Analyzer® medical device to assist doctors detect and manage glaucoma and other eye diseases; and
- research and development of the Company's core vision processing technologies to support the development and refinement of the Company's products.

Changes in State of Affairs

In April 2010 the Company completed a secondary placing raising £3.3m through the issue of 93,649,478 new Ordinary Shares. 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.

Subsequent Events After the Balance Date

Subsequent to the end of the financial year the Company has received a number of orders for the DSS Product Suite that will provide a strong foundation for the growth of the DSS business and which the Directors believe will have a significant impact on the potential for growth of the Company.

There has not arisen in the interval between the end of the financial year and the date of this report any other 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 commercialisation of the DSS Product Suite (DSS); and
- the development and commercialisation of the faceAPI product; and
- the development and sale of its faceLAB® product; and
- the development and commercialization of the TrueField Analyzer® (TFA), including support of the Australian National University Research School of Biology's efforts to complete the science underpinning the product.

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 2010 and no dividends or distributions have been recommended or declared by the Directors in respect of the year ended 30 June 2010.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Report (continued)

Share Options

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

No share options were granted during the year.

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

During the year no 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 4,169,355 options issued (6,510,592 at the reporting date).

Unissued Shares

As at the date of this report there were 4,169,355 unissued ordinary shares under options (6,510,592 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 (Seeing Machines Limited and the US subsidiary Seeing Machines Inc), 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 2010 financial year 13 full 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.

Director	Meetings Eligible to Attend	Meetings Attended
William Mobbs	13	13
Rob Sale	13	12
David Gaul	13	12
James Fulton Muir	13	11
Trent Victor	13	10
Alexander Zelinsky	13	13
Nicholas Cerneaz	13	13

During the 2010 financial year there were 4 additional Board Meetings that the Board delegated to the Fundraising Committee of William Mobbs, Rob Sale and Nicholas Cerneaz who each attended all four of these meetings.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' 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.

Auditor's 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 and other services	A\$11,810
-----------------------------------	-----------

Signed at Canberra this 20th day of September 2010 in accordance with a resolution of the Directors made pursuant to section 298(2) 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".

Nicholas Cerneaz
Chief Executive Officer
and Director



Ernst & Young House
51 Allara Street
Canberra ACT 2600 Australia
GPO Box 281 Canberra ACT 2601
Tel: +61 2 6267 3888
Fax: +61 2 6246 1500
www.ey.com/au

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

In relation to our audit of the financial report of Seeing Machines Limited for the financial year ended 30 June 2010, 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 & 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
20 September 2010



Statement of Financial Position

AS AT 30 JUNE 2010	Note	Consolidated	
		2010 A\$	2009 A\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	13	3,904,954	679,166
Trade and other receivables	14	1,316,435	748,550
Inventories	15	329,062	259,728
Other current assets	16	30,839	44,972
TOTAL CURRENT ASSETS		5,581,290	1,732,416
NON-CURRENT ASSETS			
Property, plant and equipment	17	227,035	302,549
Intangible assets	18	477,652	417,361
TOTAL NON-CURRENT ASSETS		704,687	719,910
TOTAL ASSETS		6,285,977	2,452,326
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	1,033,059	606,370
Provisions	20	317,175	232,571
TOTAL CURRENT LIABILITIES		1,350,234	838,941
NON-CURRENT LIABILITIES			
Provisions Non-Current	21	101,554	73,602
TOTAL NON-CURRENT LIABILITIES		101,554	73,602
TOTAL LIABILITIES		1,451,788	912,543
NET ASSETS		4,834,189	1,539,783
EQUITY			
Contributed equity	23	14,664,487	9,646,776
Accumulated losses	24	(10,657,432)	(8,887,593)
Other reserves	24	827,134	780,600
TOTAL EQUITY		4,834,189	1,539,783

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



Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010	Note	Consolidated	
		2010 A\$	2009 A\$
Continuing operations			
Sale of goods and licence fees		4,066,911	4,824,535
Rendering of services		178,939	96,661
Revenue		4,245,850	4,921,196
Cost of Sales		(1,079,835)	(1,692,104)
Gross Profit		3,166,015	3,229,092
Other income	7	223,182	304,575
Deferred Grant Income - net off against impairment		-	2,245,642
Research and Development Expenses		(1,567,704)	(177,523)
Distribution Expenses		(520,327)	(411,795)
Marketing expenses		(1,316,390)	(1,778,612)
Occupancy and facilities expenses		(505,764)	(498,958)
Administration expenses		(1,182,612)	(1,222,774)
Impairment of development costs		-	(7,289,626)
Other expenses	8	(66,239)	(9,133)
Profit / (Loss) from continuing operations before income tax		(1,769,839)	(5,609,112)
Income tax expense	9	-	-
Loss from continuing operations after income tax		(1,769,839)	(5,609,112)
Net Profit / (Loss) for the year		(1,769,839)	(5,609,112)
Other comprehensive income			
Foreign currency translation		4,637	42,268
Cash flow hedges:			
Transferred to statement of financial position		-	(12,297)
Other comprehensive income net of tax		4,637	29,971
Total comprehensive income		(1,765,202)	(5,579,141)
Earnings per share for profit attributable to the ordinary equity holders of the company:	11		
· Basic earnings per share		(0.531)	(1.906)
· Diluted earnings per share		(0.531)	(1.906)

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



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010	Note	CONSOLIDATED					Total Equity
		Contributed Equity	Accumulated Losses	Foreign Currency Translation	Employee Equity Benefits Reserve	Cash flow Hedge Reserve	
		A\$	A\$	A\$	A\$	A\$	A\$
At 1 July 2008		9,646,776	(3,278,481)	-	709,845	12,297	7,090,437
Loss for the year		-	(5,609,112)	-	-	-	(5,609,112)
Other comprehensive income		-	-	42,268	-	(12,297)	42,268
Total comprehensive income		-	(5,609,112)	42,268	-	-	(5,566,844)
Transaction with owner in their capacity as owner							
Share based payment		-	-	-	28,487	-	28,487
At 30 June 2009		9,646,776	(8,887,593)	42,268	738,332	-	1,539,783
At 1 July 2009		9,646,776	(8,887,593)	42,268	738,332	-	1,539,783
Loss for the year		-	(1,769,839)	-	-	-	(1,769,839)
Other comprehensive income		-	-	4,637	-	-	4,637
Total comprehensive income		-	(1,769,839)	4,637	-	-	(1,765,202)
Transaction with owner in their capacity as owner							
Share based payment		-	-	-	41,897	-	41,897
Share issue		5,417,255	-	-	-	-	5,417,255
Transaction costs on share issue		(399,544)	-	-	-	-	(399,544)
At 30 June 2010		14,664,487	(10,657,432)	46,905	780,229	-	4,834,189

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



Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2010	Note	Consolidated	
		2010 A\$	2009 A\$
Cash flows from operating activities			
Receipts from customers		3,732,180	5,201,832
Grants received		29,898	100,787
Payment to suppliers and employees		(5,587,567)	(5,059,772)
Interest received		26,213	106,987
Net cash flows (used in) / from operating activities	25	(1,799,276)	349,834
Cash flows from investing activities			
Proceeds from sale of plant and equipment		-	500
Purchase of plant and equipment		(16,173)	(195,067)
Payments for intangible assets		(94,617)	(97,235)
Payments for research and development costs		-	(2,139,285)
Net cash flows (used in) investing activities		(110,790)	(2,431,087)
Cash flows from financing activities			
Loans to Group		-	-
Proceeds from issue of shares		5,417,255	-
Costs of capital raising		(399,544)	-
Net cash flows from financing activities		5,017,711	-
Net increase/(decrease) in cash and cash equivalents		3,107,645	(2,081,253)
Net foreign exchange differences		118,143	(10,828)
Cash and cash equivalents at beginning of period		679,166	2,771,247
Cash and cash equivalents at end of period	13	3,904,954	679,166

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



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements

1. Corporate Information

The financial report of Seeing Machines Limited (the Company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 20th September 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 Group are described in the Directors' Report.

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 year of \$1,769,839 (2009: Loss of \$5,609,112). The Group has Accumulated Losses of \$10,657,433 (2009: Accumulated Losses of \$8,887,594). The balance of cash and cash equivalents at 30 June 2010 is \$3,904,954 (2009: Cash and cash equivalents \$679,166). 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. Summary of significant accounting policies

Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards as issued by the Australian Accounting Standards Board and other authoritative pronouncements of the Australian Accounting Standards board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

(a) Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009:

- AASB 8 Operating Segments effective 1 July 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 July 2009
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segment determined in accordance with AASB 8 is the same as the business segment previously identified under AASB 114.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2010. These are outlined in the table below.



Seeing Machines Limited - Annual Report
 ABN 34 093 877 331

Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:</p> <p>The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.</p> <p>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.</p> <p>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:</p> <ul style="list-style-type: none"> • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk. <p>The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.</p> <p>The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.</p>	1 January 2010	The amendments will have no direct impact on the amounts included in the Group's financial statements however may have an impact on disclosures.	1 July 2010



Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	<p>This Standard makes amendments to Australian Accounting Standard AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions.</p> <p>The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.</p> <p>The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p>	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> two categories for financial assets being amortised cost or fair value removal of the requirement to separate embedded derivatives in financial assets strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	The Group has determined that whilst the changes may impact on the disclosure of some items there will be no impact on the current accounting treatment of those items.	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)</p>	1 January 2011	There is not expected to be any impact on the group of the amendments.	1 July 2011



seeingmachines

Seeing Machines Limited - Annual Report

ABN 34 093 877 331

Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	Refer to AASB 2009-11 above.	1 July 2013



Seeing Machines Limited - Annual Report
 ABN 34 093 877 331

Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	Refer to AASB 2009-12 above.	1 July 2011

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Seeing Machines Limited and its subsidiaries (as outlined in note 26) as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Seeing Machines Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date separately from goodwill, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note (d)).

The difference between the above items and the fair values of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(e) Segment reporting – refer note 6

An operating segment is a component of the entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the level of segment information presented to the board of directors.

Operating segments that meet the qualitative criteria as prescribed by AASB 8 are reported separately. However an operating segment that does not meet the qualitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(f) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Seeing Machines Limited is Australian dollars (\$). The United States subsidiaries' functional currency is United States Dollars which is translated to presentation currency (see below).

(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.

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.

(iii) Translation of Group Companies functional currency to presentation currency

The results of the United States subsidiary are translated into Australian Dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at balance date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

On consolidation, exchange differences arising from the translation of the net investment in the United States subsidiary are taken to the foreign currency translation reserve. If a United States subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the income statement.

(g) Cash and cash equivalents – refer note 13

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 Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(h) Trade and other receivables – refer note 14

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(i) Inventories - refer note 15

Inventories including raw materials, work in progress and finished goods 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, work in progress and finished goods – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including the transfer from equity of gains and losses on qualifying cash flow hedges of purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

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.

(j) Derivative financial instruments and hedging

The Group uses derivative financial instruments (including forward currency contracts) to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability (*Seeing Machines Limited does not currently have any fair value hedges*);
- cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction (*Seeing Machines Limited has cash flow hedge*); or



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

(j) Derivative financial instruments and hedging (continued)

- hedges of a net investment in a foreign operation (*Seeing Machines Limited does not hedge its net investment in the United States operation*).

Hedges that meet the strict criteria for hedge accounting are accounted as follows:

(i) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability that is a firm commitment and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (finance costs or inventory purchases) when the forecast transaction occurs.

The Group tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 30 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

At each balance date, the Group measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over-hedged, the ineffective portion is taken immediately to other income/expense in the income statement. For interest rate cash flow hedges, any ineffective portion is taken to other expenses in the income statement.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(k) Property, plant and equipment – refer note 17

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on the diminishing value or straight line basis using the following depreciation rates of the specific asset as follows:

Office furniture, fittings and equipment – 11.25% to 40%
Research and development software and equipment 33.3%

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(m) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Seeing Machines Limited conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(n) Intangibles – refer note 18

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note (m) for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.



Notes to the Financial Statements (continued)

(n) Intangibles – refer note 18 (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the intangible relates. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. 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 so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

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

	Patents and Trademarks	Licences	Development Costs of assets in use
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	When an indicator of impairment exists	When an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicators 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.

(o) Trade and other payables – refer note 19

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

(p) Provisions and employee benefits – refer notes 20 and 21

Provisions are recognised when the Group 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.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(q) Share-based payment transactions – refer note 28

The Group provides benefits to employees (including KMP and 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 vesting 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 and/or service conditions are fulfilled (the vesting period) ending on the date on which the relevant employees become fully-entitled to the award (the vesting date).



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

(q) Share-based payment transactions – refer note 28 (continued)

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) The grant date fair value of the award.
- (ii) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.
- (iii) The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or if otherwise beneficial to the employee, as measured at the date of modification.

If 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, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 11).

(r) Contributed equity – refer note 23

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue from the sale of goods is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

(ii) Licence fees

Revenue from licence fees is recognised when there is persuasive evidence, usually in the form of a licence agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer. Licences granted to customers are perpetual licences for use of intellectual property (usually in the form of software) with no further work or processing required by the Group.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

(s) Revenue recognition (continued)

(iii) Rendering of services

Revenue from the support and consultancy is recognised by reference to the stage of completion of a contract or contracts in progress at balance date or at the time of completion of the contract and billing to the customer.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract which is determined by a set quotation with the customer. As the contracts are reasonably short, there is only a small amount outstanding at balance date, as such the level of judgement required is minimal. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iv) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(t) Income taxes and other taxes – refer note 9

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- when 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; or
- when the deductible temporary difference is associated with investments in subsidiaries, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference 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.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

(t) Income taxes and other taxes – refer note 9 (continued)

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.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

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

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which 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 is classified as part of operating cash flows.

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

(u) Government grants – refer note 22

Government grants are recognised in the balance sheet as a liability when the grant is received.

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. They are not credited directly to shareholders' equity.

When the grant relates to an asset (development expenditure), the fair value is credited to deferred income and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(v) Earnings per share – refer note 11

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.



Notes to the Financial Statements (continued)

4. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short-term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of this policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally forward exchange contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring exposure to interest rate risk and assessment of market forecasts for foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the use of future rolling cash flow forecasts.

Primary responsibility for identification and control of risk rests with the Board. The Board reviews and agrees policies for managing each of its risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency risk, credit allowances and future cash flow forecast projections.

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates to the Group's short-term cash holdings and cash flow hedges. The Group did not enter into any forward contracts during the 30 June 2010 financial year.

The Group's exposure to interest rate risk is minimal.

At balance date the Group had the following mix of financial assets exposed to variable interest rates at the designated variable interest rate and are not designated in cash flow hedges:

FOR THE YEAR ENDED 30 JUNE 2010	Consolidated	
	2010 A\$	2009 A\$
Financial Assets		
Cash and cash equivalents		
Exposed to Australian variable interest rate risk	3,650,924	562,207
Exposed to United States of America variable interest rate risk	254,030	116,959
Total cash and cash equivalents	3,904,954	679,166



Notes to the Financial Statements (continued)

4. Financial risk management objectives and policies (Continued)

Interest rate risk (continued)

The Group's policy is to not hedge against interest rate movements as funds held are in cash and short-term deposits. At 30 June, 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax equity and profit would have been affected as follows:

	Post Tax Profit		Equity	
	Higher / (Lower)		Higher / (Lower)	
	2010	2009	2010	2009
FOR THE YEAR ENDED 30 JUNE 2010	A\$	A\$	A\$	A\$
Consolidated				
+ 1% (100 basis points)	15,038	16,246	-	-
- .5% (50 basis points)	(7,519)	(8,123)	-	-

The movement in Profit is due to interest rate change on cash balance. The movement in equity is due to the increase/decrease in the fair value of derivative instruments designated as cash flow hedges.

Foreign currency risk

As a result of significant sales in the United States and Europe (denominated in the local currency), staffing costs and significant purchases of inventory denominated in United States dollars, the Group's balance sheet can be affected by movement in the US\$/A\$ exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by entering into forward contracts.

Approximately 95% of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, whilst approximately 74% of costs are denominated in the unit's functional currency.

The Group requires that on specific contracts with a value greater than A\$200,000, the contract may be hedged to any level within the amount of the contract. Group policy is that forward exchange contracts are limited to a total of A\$2,000,000.

It is the Group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the hedge derivative to exactly match the terms of the hedged item to maximize hedge effectiveness. The Group did not enter into any forward contracts during the 30 June 2010 financial year.

Further, for the purpose of settlement of accounts that will likely occur within three months, funds received may be held in a currency other than the unit's functional currency to settle such amounts.



seeingmachines

Seeing Machines Limited - Annual Report

ABN 34 093 877 331

Notes to the Financial Statements (continued)

4. Financial risk management objectives and policies (Continued)

Foreign currency risk (continued)

At 30 June, 2010 the Group had the following exposure to foreign currency that is not designated in cash flow hedges:

	Consolidated	
	2010 A\$	2009 A\$
Financial Assets		
Cash and cash equivalents (US\$)	254,030	116,959
Trade and other receivables (US\$)	787,219	374,349
Trade and other receivables (EUR)	136,794	144,792
Trade and other receivables (GBP)	90,011	-
	<u>1,268,054</u>	<u>636,100</u>
Financial Liabilities		
Trade and other payables (US\$)	(204,235)	(44,844)
Trade and other payables (EUR)	-	-
Trade and other payables (GBP)	(18,935)	(30,084)
	<u>(223,170)</u>	<u>(74,928)</u>
Net exposure	<u>1,044,884</u>	<u>561,172</u>

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2010, had the Australian dollar moved against major trading currencies, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit		Equity	
	Higher / (Lower)		Higher / (Lower)	
	2010 A\$	2009 A\$	2010 A\$	2009 A\$
FOR THE YEAR ENDED 30 JUNE 2010				
Consolidated				
AUD / foreign currency +10%	(94,989)	(51,015)	-	-
AUD / foreign currency -5%	54,994	29,535	-	-

Management believe the balance date risk exposures are representative of the risk exposure inherent in financial instruments.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each particular note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognized, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.



Notes to the Financial Statements (continued)

4. Financial risk management objectives and policies (Continued)

It is the Group's policy that all customers who wish to trade are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Capital management and liquidity risk

The Group's objective is to raise finance as and when needed by share placement. The Group has not made use of bank overdrafts or bank loans. Funding may be sought through use of bank overdrafts, bank loans, share placement, finance leases or other credit lines.

The following table reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognized financial assets and liabilities, including derivative financial instruments as of 30 June 2010. For derivative financial instruments the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

FOR THE YEAR ENDED 30 JUNE 2010	Consolidated	
	2010 A\$	2009 A\$
6 months or less	1,033,059	606,370
Over six months	-	-
Total	1,033,059	606,370

Maturity analysis of financial assets and liabilities based on management's expectation.

The risk implied from the table below reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as plant, equipment and investments in working capital eg inventories and trade receivables. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Seeing Machines Limited has established risk reporting systems that reflects expectations of management of expected settlement of financial assets and liabilities.

Year ended 30 June 2010	<=6 months \$	6 - 12 months \$	> 1 year \$	Total
Consolidated Financial assets				
Cash and cash equivalents	3,904,954	-	-	3,904,954
Trade and other receivables	1,316,435	-	-	1,316,435
	5,221,389	-	-	5,221,389
Consolidated Financial liabilities				
Trade and other payables	1,033,059	-	-	1,033,059
	1,033,059	-	-	1,033,059
Net Maturity	4,188,330	-	-	4,188,330

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flows.

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

5. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in the financial period.

Capitalised development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(ii) Significant accounting estimates and assumptions

Impairment of intangible assets and capitalised development costs

The Group determines whether intangible assets and capitalised development costs are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the intangibles with indefinite useful lives are allocated.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

5. Significant accounting judgements, estimates and assumptions (continued)

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Hull White method using a trinomial model, with the assumptions detailed in note 28. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

6. Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) is assessing performance and determining the allocation of resources.

The operating segments are identified by management based on the country of origin. The Group operates in two geographical segments, Australia and United States of America.

Transfer prices between geographical segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

The Group has a number of customers and distributors to which it supplies products and services. Of these one distributor accounted for 16.8% (2009: 13.3%) of external revenue whilst the largest customer was in the mining sector and accounted for 12.4% of external revenue (2009: 0.0%).

(a) Geographical segments

The Group's geographical segments are determined based on the location of the Group's assets.

The following table presents revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2010 and 30 June 2009.



Seeing Machines Limited - Annual Report
 ABN 34 093 877 331

Notes to the Financial Statements (continued)

6. Segment information (continued)

	Australia	United States	Total
FOR THE YEAR ENDED 30 JUNE 2010	A\$	A\$	A\$
Revenue			
Sales to external customers	4,245,850	-	4,245,850
Inter-segment sales	-	-	0
Total Segment Revenue	4,245,850	-	4,245,850
Inter-segment elimination			-
Total Consolidated Revenue			4,245,850
Result			
Segment results	(1,266,208)	(503,631)	(1,769,839)
Profit / (loss) before income tax	(1,266,208)	(503,631)	(1,769,839)
Income tax expense	-	-	-
Net profit / (loss) for the year	(1,266,208)	(503,631)	(1,769,839)
Assets and Liabilities			
Segment Assets	7,244,148	(958,171)	6,285,977
Total Assets	7,244,148	(958,171)	6,285,977
Segment Liabilities	1,439,415	12,373	1,451,788
Net Assets	5,804,733	(970,544)	4,834,189
Other Segment Information			
Capital expenditure	110,790	-	(110,790)
Deferred grant income - net off against impairment	-	-	-
Depreciation and amortisation	126,353	-	126,353
Impairment losses	-	-	-
Cash Flow Information			
Net cash flow from operating activities	(1,394,873)	(404,403)	(1,799,276)
Net cash flow from investing activities	(110,790)		(110,790)
Net cash flow from financing activities	4,623,705	394,006	5,017,711



seeingmachines

Seeing Machines Limited - Annual Report

ABN 34 093 877 331

Notes to the Financial Statements (continued)

6. Segment information (continued)

Year ended 30 June 2009	Australia A\$	United States A\$	Total A\$
Revenue			
Sales to external customers	4,921,196	-	4,921,196
Inter-segment sales	-	249,229	249,229
Total Segment Revenue	4,921,196	249,229	5,170,425
Inter-segment elimination			(249,229)
Total consolidated revenue			4,921,196
Result			
Segment results	(5,095,294)	(513,818)	(5,609,112)
Profit/(loss) before income tax	(5,095,294)	(513,818)	(5,609,112)
Income tax expense	-	-	-
Net profit/(loss) for the year	(5,095,294)	(513,818)	(5,609,112)
Assets and Liabilities			
Segment Assets	2,409,387	42,939	2,452,326
Total Assets	2,409,387	42,939	2,452,326
Segment Liabilities	891,983	20,560	912,543
Net Assets	891,983	20,560	912,543
Other segment information			
Capital expenditure	2,429,432	2,155	2,431,587
Deferred grant income – net off against impairment	2,245,642	-	2,245,642
Depreciation and amortisation Impairment losses	(878,540)	(370)	(878,910)
Impairment losses	(7,289,626)	-	(7,289,626)
Cash flow information			
Net cash flow from operating activities	837,659	(487,825)	349,834
Net cash flow from investing activities	(2,428,932)	(2,155)	(2,431,087)
Net cash flow from financing activities	(472,282)	472,282	-

(b) Segment revenue based on customer location

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographical location based on the location of the customer.

FOR THE YEAR ENDED 30 JUNE 2010	Consolidated \$000
Australia	164,491
United States	2,343,446
Other foreign countries	1,737,913
Total revenue	4,245,850



Notes to the Financial Statements (continued)

6. Segment information (continued)

(c) Segment revenue based on business units

Revenue from external customers by business units is detailed below. Business units reflect the group's major product streams.

	Consolidated	
	2010 A\$	2009 A\$
Driver State Sensor	1,132,148	2,224,840
FaceLAB	2,612,864	2,323,462
FaceAPI	432,660	285,530
Other product and services revenue	68,178	87,364
Total revenue	4,245,850	4,921,196

7. Other Income

	Consolidated	
	2010 A\$	2009 A\$
FOR THE YEAR ENDED 30 JUNE 2010		
Government grants	160,907	-
Deferred grant income	-	76,163
Interest earned	32,377	76,427
Other	29,898	-
Net gain on foreign exchange	-	151,985
	223,182	304,575

Government grants relating to market development were received during the 2010 year. There are no unfulfilled conditions or contingencies attached to those grants.

8. Expenses

	Consolidated	
	2010 A\$	2009 A\$
FOR THE YEAR ENDED 30 JUNE 2010		
(a) Other expenses		
Net loss on foreign exchange	66,239	-
Net loss on disposal of property, plant and equipment	-	9,133
Total	66,239	9,133
(b) Depreciation, impairment and amortisation expense		
Depreciation	91,687	142,821
Impairment of capitalised development costs	-	7,289,626
Amortisation of intangible assets included in cost of sales	34,326	736,089
Total	126,013	8,168,536
(c) Employee benefits expense		
Wages and salaries	2,867,558	3,689,387
Share-based payment expense	40,606	28,487
Employee benefits capitalised	-	(1,744,295)
Total	2,908,164	1,973,579



Notes to the Financial Statements (continued)

9. Income Tax

FOR THE YEAR ENDED 30 JUNE 2010	Consolidated	
	2010 A\$	2009 A\$
(a) Income tax expense		
The major components of income tax expense are:		
<i>Current income tax</i>		
Current income tax charge	(501,009)	(817,555)
Adjustments in respect of current income tax of previous years	-	11,402
Taxation loss not recognised	501,009	806,153
<i>Deferred income tax</i>		
Relating to the origination and reversal of timing differences	46,198	1,047,892
Temporary differences not recognised	(46,198)	(1,047,892)
Total	-	-
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Total accounting profit / (loss) before income tax	(1,769,839)	(5,609,112)
At the parents entity's statutory income tax rate of 30% (2009: 30%)	(530,952)	(1,682,734)
Research and development deduction	-	(162,269)
Entertainment	250	199
Share based payments (equity settled)	(16,505)	3,705
Legal Fees	-	(1,645)
Temporary differences not recognised	46,198	1,047,892
Taxation loss not recognised	501,009	806,153
Foreign tax rate adjustment	-	(11,301)
Other		
Total	-	-



Notes to the Financial Statements (continued)

9. Income Tax (continued)

	2010 Current Income Tax A\$	2010 Deferred Income Tax A\$	2009 Current Income Tax A\$	2009 Deferred Income Tax A\$
FOR THE YEAR ENDED 30 JUNE 2010				
(c) Recognised deferred tax assets and liabilities				
Consolidated				
Opening balance	-	-	-	-
Charged to Income	(501,009)	(46,198)	(806,153)	(1,047,892)
Temporary differences not recognised	-	46,198	-	1,047,892
Taxation loss not recognised	501,009	-	806,153	-
Closing balance	-	-	-	-

	Consolidated Balance Sheet	
	2010 A\$	2009 A\$
FOR THE YEAR ENDED 30 JUNE 2010		
(d) Deferred income tax at 30 June relates to the following:		
<i>(i) Deferred tax liabilities</i>		
Interest receivable	1,383	1,609
Accelerated depreciation: plant and equipment	1,155	-
Intangible assets	48,750	51,156
Prepayments	8,827	-
Gross deferred tax liabilities	60,115	52,765
Set-off deferred tax assets	(60,115)	(52,765)
Net deferred tax liabilities	-	-



Notes to the Financial Statements (continued)

9. Income Tax (continued)

FOR THE YEAR ENDED 30 JUNE 2010	Note	Consolidated Balance Sheet	
		2010	2009
<i>(ii) Deferred tax assets</i>			
Equity raising costs			52,503
Accrued expenses		72,547	75,780
Provisions:			
Annual Leave		16,554	55,956
Long Service Leave		17,214	36,182
Depreciation: plant and equipment			3,593
Gross deferred tax assets		106,315	224,014
Set-off deferred tax liabilities		(60,115)	(52,765)
Net deferred tax balance not brought to account		(46,200)	(171,249)
Tax losses		3,729,593	3,228,584
Losses not recognised		(3,729,593)	(3,228,584)
Net deferred tax asset		-	-

(e) Unrecognised temporary differences

At 30 June 2010, there are no unrecognised temporary differences associated with the Group's investment in subsidiaries as the Group has no liability for additional taxation should unremitted earnings be remitted (2009: \$nil).

10. Dividends paid and proposed

No dividends or distributions have been made to members during the year ended 30 June 2010 and no dividends or distributions have been recommended or declared by the directors in respect of the year ended 30 June 2010.



Notes to the Financial Statements (continued)

11. Earnings per share

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

(a) Earnings used in calculating earnings per share

	Consolidated	
	2010 A\$	2009 A\$
<i>For basic and diluted earnings per share:</i>		
Net (Loss) Profit	(1,769,839)	(5,609,112)
Net (Loss) Profit attributable to ordinary equity holders of the company	(1,769,839)	(5,609,112)

(b) Weighted average number of shares

FOR THE YEAR ENDED 30 JUNE 2010	Note	Number	Number
Weighted average number of ordinary shares for basic earnings per share		333,203,990	294,293,356
Effect of dilution:			
Share options		-	-
Weighted average number of ordinary shares adjusted for effect of dilution		333,203,990	294,293,356

There are no instruments (eg share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are un-dilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(c) Information on the classification of securities

Options granted to employees (including KMP) as described in note 28 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. These shares have not been included in the determination of basic earnings per share.

12. Parent Entity Information

FOR THE YEAR ENDED 30 JUNE 2010	2010 A\$	2009 A\$
Information relating to Seeing Machines Ltd		
Current assets	5,568,918	2,185,047
Total assets	6,273,779	2,903,315
Current liabilities	1,337,861	818,380
Total liabilities	1,439,415	891,982
Issued capital	14,664,487	9,646,776
Accumulated losses	(10,610,352)	(8,887,593)
Share based payment reserve	780,229	738,332
Total shareholders' equity	4,834,364	2,011,333
Loss of the parent entity	(2,236,577)	(5,095,294)
Total comprehensive income of the parent entity	(2,236,577)	(5,095,294)



Notes to the Financial Statements (continued)

13. Current Assets – Cash and Cash Equivalents

	Consolidated	
	2010	2009
	A\$	A\$
Cash at bank and in hand	3,836,390	363,079
Short-term deposits	68,564	316,087
	3,904,954	679,166

Reconciliation to Cash Flow Statement

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand	3,836,390	363,079
Short-term deposits	68,564	316,087
	3,904,954	679,166

The short term deposits include an amount of \$64,350 held as security by the bank against a guarantee for lease rental and is not available for use by the group.

14. Current Assets – Trade and Other Receivables

	Consolidated	
	2010	2009
	A\$	A\$
Trade receivables	1,023,907	708,033
Other receivables	282,555	35,155
Interest receivable	9,973	5,362
Receivable - subsidiary	-	-
	1,316,435	748,550

(a) Allowances for impairment loss

Trade receivables are non-interest bearing and are generally 30-60 days terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$nil (2009: \$nil) has been recognised by the Group and \$nil (2009: \$nil) by the Company in the current year.

There has been no movement in the provisions for impairment loss this year.

At 30 June, the ageing analysis of trade receivables is as follows:

	Total	0 - 30	31 - 60	31 - 60	61 - 90	91+
		days	days	days	days	days
FOR THE YEAR ENDED 30 JUNE 2010		Not due	Not due	PDNI*	PDNI*	PDNI*
2010 Consolidated	1,023,907	700,190	-	102,559	133,760	87,398
2009 Consolidated	708,033	407,350	5,946	92,005	179,937	22,795

Receivables past due but not considered impaired are: Consolidated \$323,717 (2009: \$300,683). Payment terms on these amounts have not been re-negotiated. Direct contact has been made with relevant debtors and satisfaction has been gained that payment will be received in full.



Notes to the Financial Statements (continued)

14. Current Assets – Trade and Other Receivables (continued)

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that other balances will be received when due.

(b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(c) Foreign exchange risk

Detail regarding foreign exchange risk exposure is disclosed in note 4.

15. Current Assets - Inventories

	Consolidated	
	2010	2009
	A\$	A\$
Raw materials	310,446	241,256
Finished goods	18,616	18,472
Total	329,062	259,728

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2010 totalled \$753,464 (2009: \$659,140) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

16. Other Current Assets

	Consolidated	
	2010	2009
	A\$	A\$
Prepayments	30,839	44,972
Total	30,839	44,972



Notes to the Financial Statements (continued)

17. Non-current Assets – Property, Plant and Equipment

(a) Reconciliation of carrying amounts at the beginning and end of the year

CONSOLIDATED	Office Furniture, Fittings and Equipment	Research and Development Software and Equipment	Total
	A\$	A\$	A\$
At 1 July 2009 net of accumulated depreciation and impairment	290,600	11,949	302,549
Additions	7,356	8,817	16,173
Depreciation charge for the year	(83,752)	(7,935)	(91,687)
At 30 June 2010 net of accumulated depreciation and impairment	214,204	12,831	227,035
At 30 June 2010			
Cost	771,464	163,757	935,221
Accumulated depreciation and impairment	(557,260)	(150,926)	(708,186)
Net carrying amount	214,204	12,831	227,035

CONSOLIDATED	Office Furniture, Fittings and Equipment	Research and Development Software and Equipment	Total
	A\$	A\$	A\$
At 1 July 2008 net of accumulated depreciation and impairment	214,561	45,345	259,906
Additions	195,097		195,097
Disposals	(9,633)		(9,633)
Depreciation charge for the year	(109,425)	(33,396)	(142,821)
At 30 June 2009 net of accumulated depreciation and impairment	290,600	11,949	302,549
At 30 June 2009			
Cost	764,108	154,940	919,048
Accumulated depreciation and impairment	(473,508)	(142,991)	(616,499)
Net carrying amount	290,600	11,949	302,549



seeingmachines

Seeing Machines Limited - Annual Report

ABN 34 093 877 331

Notes to the Financial Statements (continued)

18. Non-current Assets – Intangible Assets and Development Costs

(a) Reconciliation of carrying amounts at the beginning and end of the year

CONSOLIDATED	Development Costs	Patents, Licences and Trademarks	Total
	A\$	A\$	A\$
At 1 July 2009 net of accumulated amortisation and impairment	-	417,361	417,361
Additions	-	94,617	94,617
Amortisation	-	(34,326)	(34,326)
At 30 June 2010 net of accumulated amortisation and impairment	-	477,652	477,652
At 30 June 2010			
Cost	-	667,005	667,005
Accumulated amortisation and impairment	-	(189,353)	(189,353)
Net carrying amount	-	477,652	477,652

CONSOLIDATED	Development Costs	Patents, Licences and Trademarks	Total
	A\$	A\$	A\$
At 1 July 2008 net of accumulated amortisation and impairment	5,849,250	357,307	6,206,557
Additions	2,139,285	97,234	2,236,519
Amortisation	(698,909)	(37,180)	(736,089)
Impairment	(7,289,626)	-	(7,289,626)
At 30 June 2009 net of accumulated amortisation and impairment	-	417,361	417,361
At 30 June 2009			
Cost	-	572,388	572,388
Accumulated amortisation and impairment	-	(155,027)	(155,027)
Net carrying amount	-	417,361	417,361

(b) Description of Group's intangible assets

(i) Development costs

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. Development costs represent costs incurred in the development phase of internal projects to bring the Group's products to sale. This intangible asset has been assessed as having a finite useful life and is amortised over a period of five years. Amortisation commences once the product is available for sale and future economic benefits from development can arise. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.



Notes to the Financial Statements (continued)

18. Non-current Assets – Intangible Assets and Development Costs (continued)

(ii) Patents, licences and trademarks

Patents, licences and trademarks have been acquired and are carried at cost. These intangible assets have been determined to have useful lives between 4 and 20 years and are amortised using the straight line method over the relevant period. Patents, licences and trademarks are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

(c) Impairment losses recognised

(i) Continuing operations

An impairment loss of \$7,289,626 on capitalised development costs was recognised for continuing operations in the 2009 financial year. The impairment loss was as a result of impairment of intangible assets (\$7,289,626). Government grants related to the impaired capitalised development costs (\$2,245,642) were also recognised in the income statement (refer Note 22 for detail of the government grants recognised in the income statement). The impairment loss has been recognised in the income statement in the line "Impairment of development costs." The capitalised development costs that have been impaired are development costs relating to computer vision technology. All development has been undertaken in the geographic segment of Australia.

The Group has limited technical, financial and other resources to complete capitalised development and to continue to use and sell development. Refer note 2 for details of the limitation and uncertainty. Directors have determined, based on this uncertainty, to recognise an impairment loss of capitalised development costs in the 2009 financial year.

19. Current Liabilities – Trade and Other Payables

	Consolidated	
	2010 A\$	2009 A\$
Trade payables	473,477	221,736
Other payables	559,582	384,634
Total	1,033,059	606,370

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Foreign exchange, interest rate and liquidity risk

Information regarding foreign exchange, interest rate and liquidity risk exposure is set out in Note 4.

20. Current Liabilities – Provisions

	Consolidated	
	2010 A\$	2009 A\$
Annual Leave	240,744	185,566
Long service leave	76,431	47,005
Total	317,175	232,571

(a) Nature and timing of provisions

Refer to Note 3(p) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of the provisions.



Notes to the Financial Statements (continued)

21. Non-current Liabilities – Provisions

	Consolidated	
	2010 A\$	2009 A\$
Long service leave	101,554	73,602
Total	101,554	73,602

(a) Nature and timing of provisions

Refer to note 3(p) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of the provision.

22. Non-current Liabilities – Government Grants

FOR THE YEAR ENDED 30 JUNE 2010	Consolidated	
	2010 A\$	2009 A\$
Current liabilities		
Research and development grants	-	-
Total government grants deferred	-	-

(a) Movements in government grants

	Consolidated	
	2010 A\$	2009 A\$
At 1 July 2009	-	2,221,018
Received during the year	-	100,787
Released to the income statement – net off against amortisation	-	(76,163)
Released to the income statement –net off against impairment	-	(2,245,642)
At 30 June 2010	-	-

Government grants “Released to the income statement – net off against impairment” has been recognised in the income statement in the line “Deferred Grant Income – net off against impairment.” On receipt, the government grants were utilised to generate Capitalised development costs. The Capitalised development costs have been impaired in the current year and consistent with the Group’s policy the government grants have been matched to that cost by releasing to the income statement.

The reasons for impairment of Capitalised development costs (and thus release to the income statement of government grants) are detailed in Note 18{.

(b) Nature of grants received

The government grants recognised in the accounts are Australian federal government grants including Commercial Ready Grant, Biotechnology Innovation fund and R&D Start Grant.

Under the terms of each of the grant agreements the Group 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 Group 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.

The accounting policies in relation to government grants received by the Group have been disclosed in note 2(u).



seeingmachines

Seeing Machines Limited - Annual Report

ABN 34 093 877 331

Notes to the Financial Statements (continued)

23. Contributed Equity

FOR THE YEAR ENDED 30 JUNE 2010	Consolidated	
	2010	2009
	A\$	A\$
Ordinary shares	14,664,487	9,646,776
	14,664,487	9,646,776

	Consolidated	
	2010	2009
(a) Ordinary shares		
Issued and fully paid	405,814,407	312,164,929

Fully paid shares carry one vote per share and carry the right to dividends.

	Shares	A\$
At 1 July 2008	312,164,929	9,646,776
Share issue	-	-
Transaction costs	-	-
At 1 July 2009	312,164,929	9,646,776
Share issue	93,649,478	5,417,255
Transaction costs	-	(399,544)
At 30 June 2010	405,814,407	14,664,487

24. Retained Earnings and Reserves

(a) Movements in Retained earnings and reserves

Refer to the Statement of Changes in Equity for movements in retained earnings (accumulated losses) and other reserves.

(b) Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 28 for further details of the plan.

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.



seeingmachines

Seeing Machines Limited - Annual Report

ABN 34 093 877 331

Notes to the Financial Statements (continued)

25. Cash Flow Statement Reconciliation

FOR THE YEAR ENDED 30 JUNE 2010	Consolidated	
	2010 A\$	2009 A\$
(a) Reconciliation of net profit / (loss) after tax to net cash flows from operations		
Net profit / (loss)	(1,769,839)	(5,609,112)
Depreciation	91,687	142,791
Amortisation	34,326	659,926
Impairment	-	7,289,626
Deferred grant income - net off against impairment	-	(2,245,642)
Net loss / (profit) on disposal of property, plant and equipment	-	9,133
Net loss on foreign exchange	(113,847)	53,667
Share-based payments	41,897	27,917
<i>Changes in assets / liabilities</i>		
(Increase) / decrease in inventories	(69,333)	28,515
(Increase) / decrease in trade and other receivables	(315,875)	118,399
(Increase) / decrease in other assets	(252,010)	(674)
(Increase) / decrease in prepayments	14,133	33,313
(Decrease) / increase in government grants	-	100,787
(Decrease) / increase in provisions	112,556	(34,897)
(Decrease) / increase in trade and other payables	426,689	(223,915)
Net cash (used in) / from operating activities	(1,799,276)	349,834

26. Related Party Disclosure

(a) Subsidiary

The consolidated financial statements include the financial statements Seeing Machines Limited and subsidiary details as follows:

Name	Country of Incorporation	% Equity Interest		Investment (A\$)	
		2010	2009	2010	2009
Seeing Machines Incorporated	United States	100%	100%	174	174

Seeing Machines Incorporated was incorporated in Delaware, United States on 21 April 2008.

(b) Key management personnel

Details relating to key management personnel, including remuneration paid are included in note 27.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

26. Related Party Disclosure (continued)

(c) Transactions with related parties

Seeing Machines Limited (the parent entity) has provided its subsidiary, Seeing Machines Inc. with an intercompany loan. Seeing Machines Limited has paid Seeing Machines Inc. an amount of \$249,225 for provision of services. The services include consultancy and agency commission and transactions were made at arm's length at normal market price and on commercial terms.

(d) Director-related transactions

(i) Shareholdings of Directors

Shares in Seeing Machines Limited

	Balance 01 July 09	Granted as Remuneration	On Exercise of options	Net change other	Balance 30 June 10
30 June 2010					
Directors					
J F Muir	-	-	-	-	-
N Cerneaz ¹	1,467,332	-	-	-	1,467,332
D Gaul ²	1,834,800	-	-	-	1,834,800
W Mobbs ³	400,704	-	-	-	400,704
R Sale ⁴	5,115,512	-	-	-	5,115,512
T Victor	50,088	-	-	-	50,088
A Zelinsky ⁵	21,448,632	-	-	-	21,448,632
Total	30,317,068	-	-	-	30,317,068

	Balance 01 July 08	Granted as Remuneration	On Exercise of options	Net change other	Balance 30 June 09
30 June 2009					
Directors					
J F Muir	-	-	-	-	-
N Cerneaz ¹	1,467,332	-	-	-	1,467,332
D Gaul ²	1,834,800	-	-	-	1,834,800
W Mobbs ³	400,704	-	-	-	400,704
R Sale ⁴	5,115,512	-	-	-	5,115,512
T Victor	50,088	-	-	-	50,088
A Zelinsky ⁵	85,644,264	-	-	(64,195,632)	21,448,632
Total	94,512,700	-	-	(64,195,632)	30,317,068

Notes

1. N Cerneaz holds 1,467,332 shares through Cenika Pty Limited ATF Cenika Super fund.
2. D Gaul holds shares through Jaiclimb Pty Limited.
3. W Mobbs holds shares in the name of William Mobbs and Catherine Holbery ATF The Bilbo Super fund.
4. Rob Sale's shares are 2,494,143 shares held in the name of Caffé Pty Ltd ATF the R C Sale Superannuation Fund and 2,621,369 shares held by Rob's wife Paula Kay Sale.
5. The Company received advice on 20 May 2009, that on 6 May 2009, the four shareholders of JATS Technology Pty Ltd ("JATS") reorganised JATS's holding in Seeing Machines and that, as a result of that reorganisation, JATS no longer holds any shares in Seeing Machines. The shares in Seeing Machines originally held by JATS are now held directly by the founders of Seeing Machines (also the founders of JATS) including Dr Alexander Zelinsky a director of Seeing Machines. Dr. Zelinsky previously held 50,088 Seeing Machines Limited shares in his own name and with the JAT's reorganisation now holds 21,448,632 shares in his own name. Previously, Dr. Zelinsky held 25% of the issued shares in JATs which had 85,594,176 ordinary shares in Seeing Machines Limited.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

26. Related Party Disclosure (continued)

(ii) Option holdings of Directors

	Balance 01 July 09	Granted as Remuneration	Balance 30 June 10	Vested and Exercisable	Vested and Not Exercisable
30 June 2010					
Directors					
N Cerneaz	12,752,917	-	-	-	-
Total	12,752,917	-	-	-	-
	Balance 01 July 08	Granted as Remuneration	Balance 30 June 09	Vested and Exercisable	Vested and Not Exercisable
30 June 2009					
Directors					
N Cerneaz	12,752,917	-	12,752,917	12,752,917	-
Total	12,752,917	-	12,752,917	12,752,917	-

No other director has been granted or holds options.

(iii) Other Director related transactions

For the year \$1,864 was paid to ITL Limited or subsidiaries, an entity which non-executive director William Mobbs holds a significant interest. At 30 June 2010, \$Nil was owing to ITL Limited or subsidiaries. ITL Limited or subsidiaries have been contracted by the company since September 2005 to undertake industrial design and prototyping work for the TrueField® Analyzer product.

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

27. Key management personnel

(a) Details of Key Management Personnel

(ii) Directors

William Mobbs	Chairman
Rob Sale	Deputy Chairman
Nicholas Cerneaz	Chief Executive
David Gaul	Director (non-executive)
James Fulton Muir, AO	Director (non-executive)
Trent Victor	Director (non-executive)
Alexander Zelinsky	Director (non-executive)

(iii) Executives

Belinda Burgess	Operations Manager
Jeff Barnes	Financial Controller
Nick Langdale-Smith	Sales and Marketing Director
Dean Croke	Vice President – Automotive Business North America
Jochen Heinzmann	DSS Product Manager
Tim Edwards	Principal Engineer
Sebastian Rougeaux	Principal Research Scientist

There were no changes to the KMP after reporting date and the date the financial report was authorised for issue.



Seeing Machines Limited - Annual Report
 ABN 34 093 877 331

Notes to the Financial Statements (continued)

27. Key management personnel (continued)

(b) Compensation for Key Management Personnel

	Consolidated	
	2010	2009
	A\$	A\$
Short-term employee benefits	1,343,605	1,391,672
Post-employment benefits	82,571	92,641
Termination benefits	-	19,760
Share-based payments	105,213	38,150
Total	1,531,389	1,542,223

28. Share-based payment plans

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	Consolidated	
	2010	2009
	A\$	A\$
Expense arising from equity-settled share-based payment transactions	41,897	28,487
Total expense arising from share-based payment transactions	41,897	28,487

(b) Type of share-based payment plan *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 (old ESOS) which remains active. Under this scheme options vest in tranches based on the completion of one year, two years and three years service with no performance criteria.

Options were also granted to the CEO and the Operations Manager, vested in tranches on the completion of one, two and three years of service and additionally based on the success of the IPO (SM ESOS). These options were issued under the old ESOS, with vesting conditions as noted.

Further, options granted to ANU researchers vest on the basis of project milestones and these options were not issued under an ESOS scheme (ANU ESOS).

No further options have been granted under the old ESOS, SM ESOS or ANU ESOS during the year.

A further scheme (new ESOS) 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, or after, 1 July 2006. The basis of this plan is that:

- Options are granted with an exercise price equal to, or greater than, the market value of the shares at grant date;
- 50% of options vest after 18 months and the remaining 50% after 3 years
- 50%-100% of options are subject to performance hurdles based on company financial performance.

The contractual life of options granted under the old ESOS, the SM ESOS and ANU ESOS varies with all options expiring on 30 June 2010 and under the new ESOS the life is seven years. There are no cash settlement alternatives for the schemes. There were no options granted, under new ESOS, in the year to 30 June.



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Notes to the Financial Statements (continued)

28. Share-based payment plans (continued)

(c) Summaries of options granted under ESOS

FOR THE YEAR ENDED 30 JUNE 2010	2010	2010	2009	2009
	No.	WAEP (cents)	No.	WAEP (cents)
Outstanding at the beginning of the year	25,732,553	-	22,371,721	7.017
Granted during the year	-	-	4,682,474	6.490
Forfeited during the year	(1,585,361)	-	(1,321,642)	7.017
Exercised during the year	-	-	-	-
Expired during the year	(17,636,600)	-	-	-
Outstanding at the end of the year	6,510,592	7.011	25,732,553	7.011
Exercisable at the end of the year	678,118		17,718,726	

The outstanding balance at the end of the year is represented by:

- 678,118 options over ordinary shares with an exercise price of 8.44 cents each, exercisable upon meeting the above conditions (new ESOS) and until 1 July 2013;
- 1,150,000 options over ordinary shares with an exercise price of 6.49 cents each, exercisable upon meeting the above conditions (new ESOS) and until 20 March 2015; and
- 4,682,474 options over ordinary shares with an exercise price of 6.49 cents each, exercisable upon meeting the above conditions (new ESOS) and until 5 January 2016.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for share options outstanding at 30 June 2010 is 5.1 years (2009: 1.6years).

(e) Range of exercise price

The range of exercise prices for options outstanding at 30 June 2010 was 6.49 cents - 8.44 cents (2009: 5.13 cents - 8.44 cents).

(f) Weighted average fair value

The weighted average fair value of options granted during the year was 3.18 cents (2009: 3.31 cents).

(g) Option pricing model: ESOS

The fair value of the equity-settled share options granted under the new ESOS is estimated as at the grant date using the Hull White method using a trinomial lattice model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the year ended 30 June 2009 the last year in which options were issued:

	Grant 5 January 2009
Share price at grant date (cents)	3.70
Option exercise price (cents)	6.49
Risk free interest rate (%)	2.00
Expected life of option (years)	6.9
Dividend yield (%)	0
Exercise multiple	2.2
Volatility (%)	215



Notes to the Financial Statements (continued)

28. Share-based payment plans (continued)

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on expected exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future. The expected volatility was determined using AIM indices for similar industries. The expected volatility therefore reflects the assumption that the chosen industry volatilities will be similar to that of Seeing Machines Limited, which may also not necessarily be the actual outcome.

29. Commitments

(i) Leasing commitments

Operating lease commitments – Group as lessee

The Group has entered into a commercial lease on property. This lease has a period of less than one year with a renewal option of one year.

Future minimum rental payments under non-cancellable operating leases as at 30 June are as follows:

	Consolidated	
	2010 A\$	2009 A\$
Within one year	318,540	289,980
After one year but not more than five years	736,037	1,038,026
Total	1,054,577	1,328,006

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.

30. Contingencies

(i) Government Grant related contingencies

Unfulfilled conditions relating to government grants

The Group has unfulfilled conditions attaching to government grants – refer note 22 for details of conditions.

31. Events after balance sheet date

No significant events have occurred after balance date requiring disclosure in this financial report.

32. Auditor's remuneration

The auditor of Seeing Machines Limited is Ernst & Young.

	Consolidated	
	2010 A\$	2009 A\$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	65,650	67,694
• Other services in relation to the entity and any other entity in the consolidated group		
- Tax compliance	11,810	21,457
- Special audits required by regulators	-	5,012
	77,460	94,163



Seeing Machines Limited - Annual Report
ABN 34 093 877 331

Directors' Declaration

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

1. In the opinion of the directors:
 - (a) The financial statements and notes of the consolidated entity is in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.
 - (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.
 - (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.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Regulations 2001* for the financial year ending 30 June 2010.

On behalf of the Board

Chairman
Canberra, 20 September 2010

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

Report on the Financial Report

We have audited the accompanying financial report of Seeing Machines Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 3(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. 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 consolidated entity's financial position at 30 June 2010 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 issued by the International Accounting Standards Board.

A handwritten signature in black ink that reads 'Ernst & 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
Canberra
20 September 2010