Seeing Machines Limited

20 March 2019

Half year results to 31 December 2018

Seeing Machines Limited (AIM: SEE, "Seeing Machines" or the "Group"), the advanced computer vision technology company that designs AI-powered operator monitoring systems to improve transport safety, publishes its results for the six months to 31 December 2018.

Operational highlights

- Partnership deals for Driver Monitoring System (DMS) technology now underway with six OEM programs globally
  - Expected to deliver A$144m revenue, with the bulk in 2021 - 2024 timeframe
  - Design wins based on FOVIO chip technology include US OEM in June 2018 (previous period); Chinese OEM in July 2018; US OEM in February 2019 (post-period end)

- Aviation division - deals for eye and face tracking technology to enhance training and safety with:
  - Royal Australian Air Force to install technology into two Pilatus PC-21 advanced flight training simulators
  - L3 and Seeing Machines to deliver integrated eye tracking capabilities into Full Flight Simulator for major Australian airline

- Fleet division – restructuring underway
  - Revised commercial terms introduced to accelerate Guardian installation timeframes
  - At 31 December 2018, approximately 13,000 Guardian units installed globally, expected to double to approximately 27,000 units by June 2020
  - Sales efforts aligned for improved service and deeper penetration into direct and distributor channels
  - As at 31 December 2018, nine well established distribution partnerships across Australia, Asia, Africa, Middle East and Latin America
  - New customer wins through direct sales include First Group (leading transport operator in UK and North America), major energy operator Total, and Tengizchevroil, a Chevron company

Financial highlights

- Operating revenue* of A$14.0m (2018: A$14.6m)
  - Automotive division of A$4.7m (2018: A$6.9m), reflecting intermittent timing of Non-Recurring Engineering (NRE) payments in DMS early development phase
  - Total Fleet division A$4.2m (2018: A$5.9m) despite production and supply chain issues
  - Monitoring services (annuity) for Fleet division doubled to A$2.4m (2018: A$1.2)
  - Off-Road of A$4.6m (2018: A$1.3m), up 244% year on year, comprising royalties generated by Mining and Rail businesses

- Gross profit A$8.9m (2018: A$6.6m)

- Group net loss before tax of A$24.7m (2018: loss A$16.7m)
  - Reflects non-cash expense from one-off share issue for key staff

- Cash at 31 December 2018 A$26.9m (31 December 2017: A$42.8m)

Strategic highlights

- Management and Board significantly strengthened

- Guardian DMS now covered over 2 billion kilometres** globally
  - Unique real-world, naturalistic data underpins ability to validate and improve DMS platform

Outlook

Board's expectations for FY2019 revenue to be approximately in line with FY2018 remains unchanged.

The Board remains focused on leveraging the significant large scale and mass market opportunities for its technology. With the complexities of this fast-developing market and the influence of the OEMs in determining the timing of future contract awards, engineering or milestone payments and the commencement of volume production runs makes forecasting beyond the Group's current financial year difficult. The Group therefore expects to provide guidance on FY20 forecasts at its 2019 full year results.

Ken Kroeger, CEO at Seeing Machines, said:

"We are continuing to benefit from global regulatory drivers that are accelerating the implementation of driver monitoring systems across all vehicle types. We have agreed several further partnership deals with leading global OEMs and now have six agreements in total, including with two premium German and three US-based global automakers.

"The restructuring of our Fleet business is almost complete, and we are now focused on targeting geographic markets and industry categories that will deliver profitable business.

"We remain well placed to meet the rising demand for our technology from the global automotive sector, as DMS is increasingly acknowledged a key element required for transport safety in all vehicles."

**Excluding forex gains and finance income*

***As at 1 March 2019*

Enquiries*:*

Seeing Machines Limited www.seeingmachines.com Ken Kroeger – CEO Sophie Nicoll – VP, Marketing & Communications	**+61 2 6103 4700**
Cenkos Securities plc (Nominated Adviser and Joint Broker) Neil McDonald/Beth McKiernan/Pete Lynch	**+44 131 220 6939**
Canaccord Genuity Limited (Joint Broker) Simon Bridges/Richard Andrews	**+44 20 7523 8000**
Instinctif Partners Adrian Duffield/Kay Larsen/Chantal Woolcock	**+44 20 7427 1412**

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

About Seeing Machines - www.seeingmachines.com

Seeing Machines (LSE: SEE), a global company headquartered in Australia, is an industry leader in computer vision technologies which enable machines to see, understand and assist people. The Company's machine learning vision platform has the know-how to deliver real-time identification and understanding of drivers through Artificial Intelligence (AI) analysis of heads, faces and eyes. This insight enables Driver Monitoring Systems (DMS), which monitor driver/operator identification and attention and can detect drowsiness and distraction across multiple transport sectors.

Seeing Machines develops DMS for the Automotive, Commercial Fleet, Aviation, Rail and Off-Road markets. The Company has offices in Australia, USA, Europe and Asia, and delivers multi-platform solutions to industry leaders in each vertical.

DMS is becoming a core safety technology integrated into ADAS offerings for the automotive industry, particularly with the development of semi-autonomous and self-driving cars. DMS is also increasingly seen to be an integral safety feature across the Commercial Transport & Logistics industry globally.

Review of Operations

Financial Results

Product/Sales	**H1FY19**	**H1FY18**	**Variance**
	$'000	**$'000**	**%**
Automotive	4,662	6,882	(32)
Off-Road	4,553	1,325	244
Fleet	4,248	5,869	(28)
Aviation	121	121	(0)
Scientific Advances	460	450	2
Sales Revenue	**14,044**	**14,647**	(4)
Other Income	177	121	46
Finance Income	502	207	142
	679	**328**	107
Total Revenue	**14,723**	**14,975**	(2)

Seeing Machines Limited (and its wholly owned subsidiaries') (the Group) total operating revenue for the half year (excluding foreign exchange gains and finance income) was A$14.0 million compared to the revenue for the first six months of FY2018 of A$14.6 million.

Overall, declines in both Automotive and Fleet revenue were offset by an increase in the revenue from the Off-Road (including Rail) business which saw revenues increase from A$1.3 million in H1FY18 to A$4.6 million in H1FY19.

The decline in Fleet revenue was as a result of previously-announced production and supply chain delays which led to lower product sales during the period.

Current fluctuating Automotive revenues represent the intermittent nature and timing of Non-Recurring Engineering ("NRE") payments that are associated with the early development phase of Driver Monitoring Solutions ("DMS") for Seeing Machines' customers. The Group is continuing to work with an increasing number of automotive Tier 1 customers globally and is actively engaged on programs with six OEMs in North America, Europe and China.

The Group is also continuing to develop the significant opportunities with global market leaders in the Aviation and Off-Road segments. Following the signing of the extended partnership agreement with Progress Rail in 2017, the Group generated maiden revenue for this business unit in FY18.

Revenue from Scientific Advances in H1FY19 totalled A$0.5 million and represented revenue from research project grants funded by the Australian Government.

Gross profit of A$8.9 million was an increase of 34.3% compared to the prior comparative period ("pcp") (H1FY18: A$6.6 million), principally attributable to an increased proportion of the revenue coming from the high-margin Automotive, Off-Road markets. Fleet margins also improved year-on-year due to the high-margin fleet monitoring Monthly Recurring Revenue ("MRR") from its growing connected customer base. The gross profit improvements point to the increasing maturity of the business model.

Indirect operating expenses rose from A$23.0 million in the pcp to A$34.9 million as a result of increased investment in our capability and resources to commercialise our technology in our global target industries: Automotive, Aviation, Fleet and Off-Road. This resulted in increased R&D (mainly staff costs), marketing, facility and corporate services costs. Included in the R&D staff costs is an amount of $7.5m which represents the non-cash amortisation of a one off grant of performance rights to certain founders and key engineering staff who have played a critical role in the development of the Group to its current position.

This investment meant the Group made a net loss of A$24.7 million for H1FY19, compared to A$16.7 million for the pcp.

Cash and cash equivalents at 31 December 2018 totalled A$26.9million (30 June 2018: A$42.8million).

Operational Highlights

During H1FY19 the Group continued to execute the multi-sector strategy including each of Automotive, Aviation, Fleet and Off-Road. Investing heavily in the core intellectual property and capabilities that define Seeing Machines, the Group is positioned to capture significant value from all of these sectors and has pioneered the driver monitoring.

Automotive

This past 12 months has been pivotal for the Automotive industry with the evolution of automated vehicle technology, global regulatory bodies moving to mandate technology which improves safety across the world and the speed at which auto-makers are moving to embrace and deploy these technologies. Seeing Machines finds itself in the perfect position to support the technology revolution in automotive with safety technology that forms a key part of the Advanced Driver Assistance System (ADAS), with its FOVIO driver monitoring engine. The Group's Automotive division continues to build as Europe and North America both move towards mandatory driver monitoring for cars, vans, trucks and buses. As a result, global demand for camera-based driver monitoring technology is expected to continue to grow. Industry commentators[1] anticipate that more than 60% of all light vehicles produced globally will include driver monitoring DMS by 2025. The Board expects to achieve a significant share of this market given the limited competition in DMS technology, the quality of Seeing Machines' technology, our established market position and the formal agreements in place with leading Tier 1 suppliers.

The Group has invested significantly in building further capacity over the past 12 months and has hired more than 40 engineers. These additional resources have de-risked delivery on existing automotive OEM programs, and will accommodate the ongoing growth in demand, based on expected near-term program awards.

The Group's five existing automotive programs are on track and at varying stages of development. Seeing Machines' second major OEM program (Germany) has successfully progressed past the production sample phase and is currently on track for a production launch within the next 14 months. The third OEM program (Germany) is moving through the second sample stage software development and promises a

[1] Semicast Research (2019 edition)

volume launch in mid-2021. The fourth (North America) and fifth OEM (China) programs are both successfully progressing towards second sample stage of FOVIO chip solution, with first production orders expected within the next 12 months.

In addition, Seeing Machines continues to respond to RFQs (request for quote) across North America, Europe and Asia, with a number of the Group's submissions being presented via multiple Tier 1 partners. Seeing Machines is currently engaged in five submitted proposals with OEM sourcing decisions on the majority of these programs anticipated before the end of FY2019. The Group expects to be active in an additional eight market RFQs to be issued within the second half of the financial year.

Seeing Machines has recently finalised an additional collaboration agreement with one of the largest global Tier 1 automotive parts suppliers, paving the way for more in-depth technology sharing and collaboration toward additional OEM design wins, and demonstrating continued, successful growth of Tier 1 collaborations across the industry.

Guardian BdMS (Backup-driver Monitoring System), the Group's specially designed retro-fitted solution for test fleet semi-autonomous and autonomous vehicles, is currently in active pilots with some of the world's leading autonomous technology developers in the US.

Off-Road

Seeing Machines continues to grow its long-standing strategic partnership with Caterpillar and Progress Rail. The Group is currently discussing the consolidation of existing contractual arrangements to simplify product offerings and allow Seeing Machines to provide focused sales and marketing technical support to this established partner.

It is the Board's intention that, in the longer term, any consolidated agreement will provide next generation ruggedized hardware for Rail and Mining operators and Caterpillar-specific semi-rugged truck technology and will also allow Seeing Machines to further expand its Guardian installed base across additional fields of use beyond global rail and mining markets.

Fleet

Following an in-depth review, the Group has established a new leadership team and set in place actions that it believes will stabilise the business in the current financial year and lay a strong foundation for growth and profitability in the medium term.

The short-term focus has been on cost reduction, primarily through the closure of the North American business development and operations teams. This will also help facilitate a greater focus on higher value potential markets such as UK and Europe, Australasia and Latin America.

The sales effort has been better aligned to ensure improved service and deeper penetration into both the direct and distributor channels. As at 31 December 2018, the Fleet business now has nine well established distribution partnerships across Australia, Asia, Africa, Middle East and Latin America.

Seeing Machines will continue to deal directly with large, global transport and logistics accounts where it has a proven track record delivering its cutting-edge Guardian technology and market-leading service for the safety of drivers and passengers. Some of the more recent examples in this field include customers such as First Group (leading transport operator in UK and North America), major energy operator Total, and Tengizchevroil (TCO), a Chevron company.

Installation rates of the Group's Gen 2 product were impacted in the first half by delays in product availability owing to recent manufacturing issues which temporarily affected the performance of the FOVIO platform technology, now integrated into Guardian. Seeing Machines has worked closely with its manufacturing partners to resolve these issues and expects to be able to satisfy all existing orders and meet continued strong demand in the remainder of the current financial year. Discussions with the Group's manufacturing partners are ongoing and are aimed at streamlining ongoing distribution, service and support and improving and optimising the manufacturing arrangements of Guardian hardware.

Customer feedback and user experience will be integral in informing changes implemented to reduce production cost and enhance hardware performance.

The Group will retain the growing subscription SaaS (Software as a Service) delivery model, via its 24/7 Guardian Centre in Tucson, Arizona. This services business is profitable on a stand-alone basis and provides a regular and repeatable annuity style income stream going forward. Improvement of installation rates within customer fleets is a key focus in order to speed up delivery of services via 24/7 monitoring and fast-track profitability of individual deals.

Aviation

In H1FY19, the Aviation division has entered commercial deals, both of which are world first, with customers including the Royal Australian Air Force, L3 Training Solutions for a major Australian airline to deliver the Group's eye tracking technology to improve training across the industry.

The Board expects these engagements to continue in number and to grow in size as the aviation industry embraces technology to enhance pilot training to better measure, tailor and advance programs that will enable it to cope with expected increases in aviation fleets and subsequent global travel.

Interim Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018	Note	Consolidated 31 DEC 2018 A$	Consolidated 30 JUN 2018 A$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	26,861,073	42,786,447
Trade and other receivables	7	15,667,953	19,757,648
Inventories	8	8,691,742	4,300,895
Current financial assets		511,616	578,575
Other current assets		4,940,432	876,131
TOTAL CURRENT ASSETS		56,672,816	68,299,696
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,401,879	3,659,310
Intangible assets	10	3,074,197	3,529,297
TOTAL NON-CURRENT ASSETS		6,476,076	7,188,607
TOTAL ASSETS		63,148,892	75,488,303
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		5,575,712	6,300,402
Provisions		2,810,242	2,644,173
Deferred revenue		807,697	873,735
Current financial liabilities	11	4,323,513	387,590
Other liabilities		223,767	152,830
TOTAL CURRENT LIABILITIES		13,740,931	10,358,730
NON-CURRENT LIABILITIES			
Provisions		26,325	29,864
Non-current financial liabilities	11	756,501	575,964
Other liabilities		1,120,755	1,197,170
TOTAL NON-CURRENT LIABILITIES		1,903,581	1,802,998
TOTAL LIABILITIES		15,644,512	12,161,728
NET ASSETS		47,504,380	63,326,575
EQUITY			
Contributed equity		158,804,963	158,031,370
Treasury Shares		(1,108,511)	(1,108,511)
Accumulated losses		(120,165,993)	(95,439,981)
Other reserves		9,973,921	1,843,697
Equity attributable to the owners of the parent		47,504,380	63,326,575
TOTAL EQUITY		47,504,380	63,326,575

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

Interim Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018	Note	Consolidated 2018 A$	Consolidated 2017 A$
Sale of goods and licence fees		6,902,776	6,767,437
Rendering of services		6,644,194	7,429,101
Research revenue		497,000	450,000
Revenue		14,043,970	14,646,538
Cost of Sales		(5,182,940)	(8,049,101)
Gross profit		8,861,030	6,597,437
Net gain/(loss) in foreign exchange		673,793	(604,262)
Finance income		501,875	206,976
Other income	4	176,912	121,493
Expenses[(a)]			
Research and development expenses	5	(20,452,884)	(10,576,871)
Customer support and marketing expenses		(6,302,287)	(5,784,899)
Occupancy and facilities expenses		(3,394,843)	(3,493,569)
Corporate services expenses		(4,533,333)	(3,107,670)
Finance costs		(156,826)	(41,691)
Other expenses		(3,712)	-
Loss before income tax		(24,630,275)	(16,683,056)
Income tax expense		(2,930)	(28,404)
Loss after income tax		(24,633,205)	(16,711,460)
Loss for the period		(24,633,205)	(16,711,460)
Attributable to:			
Equity holders of parent		(24,633,205)	(16,711,460)
		(24,633,205)	(16,711,460)
Other comprehensive (loss)/income – to be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		(325,787)	265,372
Other comprehensive (loss)/income net of tax		(325,787)	265,372
Total comprehensive loss		(24,958,992)	(16,446,088)
Total comprehensive loss attributable to:			
Equity holders of parent		(24,958,992)	(16,446,088)
Total comprehensive loss for the year		(24,958,992)	(16,446,088)
Earnings per share for loss attributable to the ordinary equity holders of the parent:			
· Basic earnings per share		(0.01522)	(0.01320)
· Diluted earnings per share		(0.01522)	(0.01320)

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

Note a: In the Statement of Comprehensive income there has been a reclassification of amortisation on employee options in the comparative period, to more accurately reflect the extent to which these options were issued to founders and key technical staff who contributed to research & development, and to align with the classification applied in the current period.

Interim Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018	Contributed Equity A$	Treasury Shares A$	Accumulated Losses A$	Foreign Currency Translation Reserve A$	Employee Equity Benefits & Other Reserve A$	Total Equity A$
At 1 July 2017	96,482,665	(1,191,078)	(59,426,120)	(765,054)	2,472,471	37,572,884
(Loss) for the half year	-	-	(16,711,460)	-	-	(16,711,460)
Other comprehensive income	-	-	-	265,372	-	265,372
Total comprehensive income	-	-	(16,711,460)	265,372	-	(16,446,088)
Transactions with owners in their capacity as owners:						
Shares issued	111,974	-	-	-	-	111,974
Shares to be issued [b]	7,184,081	-	-	-	-	7,184,081
Capital raising costs	(95,727)	-	-	-	-	(95,727)
Employee shares held in trust	-	-	-	-	584,666	584,666
At 31 December 2017	103,682,993	(1,191,078)	(76,137,580)	(499,682)	3,057,137	28,911,790
At 1 July 2018	158,031,370	(1,108,511)	(95,439,981)	(1,146,201)	2,989,898	63,326,575
Effect of adoption of new accounting standard (AASB 9)	-	-	(92,807)	-	-	(92,807)
At 1 July 2018 (restated)	158,031,370	(1,108,511)	(95,532,788)	(1,146,201)	2,989,898	63,233,768
(Loss) for the half year	-	-	(24,633,205)	-	-	(24,633,205)
Other comprehensive income	-	-	-	(325,787)	-	(325,787)
Total comprehensive income	-	-	(24,633,205)	(325,787)	-	(24,958,992)
Transactions with owners in their capacity as owners:						
Shares issued	773,593	-	-	-	-	773,593
Capital raising costs	-	-	-	-	-	-
Employee shares held in trust	-	-	-	-	8,456,010	8,456,010
At 31 December 2018	158,804,963	(1,108,511)	(120,165,993)	(1,471,988)	11,445,908	47,504,380

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

Note b: Subscription monies are funds received from subscribers in advance of the shareholder meeting on 3 January 2018. At this meeting shareholders approved the Placing and shares were subsequently issued.

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Interim Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018	Note	Consolidated 2018 A$	2017 A$
Operating activities			
Receipts from customers (inclusive of GST)		16,532,376	10,682,150
Payments to suppliers and employees (inclusive of GST)		(36,279,681)	(29,147,129)
Government Grants received		460,000	450,000
Interest received		170,133	2,309
Interest paid		(156,826)	(41,691)
Income tax paid		(115,484)	(28,404)
Payments received for research and development costs		-	4,700,825
Net cash flows used in operating activities		(19,389,482)	(13,381,940)
Investing activities			
Purchase of plant and equipment		(249,100)	(740,154)
Payments for intangible assets		(262,166)	(182,378)
Purchase of held to maturity financial assets		-	(1,913)
Proceeds from held to maturity financial assets		66,959	-
Net cash flows used in investing activities		(444,307)	(924,445)
Financing activities			
Proceeds from receipt of subscription monies		607,365	7,184,081
Cost of capital raising		-	(95,727)
Proceeds from borrowings		3,124,063	3,175,417
Repayment of borrowings		(209,196)	(110,544)
Net cash flows from financing activities		3,522,232	10,153,227
Net decrease in cash and cash equivalents		(16,311,557)	(4,153,158)
Net foreign exchange differences		386,183	164,909
Cash and cash equivalents at 1 July		42,786,447	21,438,025
Cash and cash equivalents at 31 December	6	26,861,073	17,449,776

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

Notes to the interim consolidated financial statements

1. Corporate information, basis of preparation and accounting policies

Corporate information

The interim consolidated financial statements of Seeing Machines Limited and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 15 March 2019.

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

Basis of preparation and accounting policies

The interim consolidated financial statements are prepared in accordance with AASB 134 *Interim Financial Reporting* in order to fulfil the reporting requirements of Rule 18 of the London Stock Exchange's AIM Rules for Companies issued July 2016.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 June 2018.

Changes in accounting policy

The accounting policies adopted in the preparation of the half year financial report are consistent with those applied in the annual financial report, except for the adoption of new standards effective as of 1 July 2018.

During the current period, the Group initially applied AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*.

Several other amendments and interpretations apply for the first time in the current financial year, but do not have an impact on the half year financial report of the Group. These are as follows:

- AASB Interpretation 22 *Foreign Currency Transactions and Advance Considerations*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfer of Investment Property*
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- *Annual Improvements* 2014-2016 Cycle and Other Amendments

A number of new accounting standards (including amendments and interpretations) have been issued but are not yet effective. The Group has not elected to early adopt any of these new standards in these financial statements. These pronouncements are not expected to have a material impact on the Group's results or financial position.

a. AASB 9 *Financial instruments*

In the current half year, the Group has applied AASB 9 *Financial Instruments* and the related consequential amendments to other AASBs. AASB 9 replaces the provisions of AASB 139 *Financial Instruments: Recognition and Measurement* in relation to financial instruments and hedge accounting. AASB 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and impairment for financial assets. The key change to the Group's accounting policies arising from this standard is in relation to the impairment of financial assets (mainly receivables). AASB 9 effectively moves from an 'incurred losses' model to an 'expected losses' model, which requires a forward-looking assessment of potential default events and losses over the life of these assets.

Details of these new requirements as well as their impact on the Group's financial statements are described below.

The Group has applied AASB 9 retrospectively using the modified retrospective method of transition. The date of initial application is 1 July 2018. The adoption of AASB 9 has resulted in an expected credit loss on the opening balance of financials assets of $92,807 against the Group's trade receivables as at 1 July. The increase in the allowance was debited to opening retained earnings at 1 July 2018. The comparative figures have not been restated.

Classification and measurement of financial assets

All recognised financial assets that are debt in nature are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost;
- Financial assets that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- all other financial assets are subsequently measured at fair value through profit or loss (FVTPL).

Despite the above, the Group may irrevocably elect to present subsequent changes in the fair value of particular equity instruments in other comprehensive income. The Group may also irrevocably designate a financial asset that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a financial asset that is debt in nature, is measured at FVTOCI, is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity instrument designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Financial assets which are debt in nature that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

As the Group does not hedge contracts and does not have any financial assets carried at fair value, the implementation of AASB 9 did not have any material impact.

Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

As the Group does not experience material credit losses, the impact of incorporating forward looking factors did not result in a material impact to the impairment of financial assets

Classification and measurement of financial liabilities

The application of AASB 9 has had no impact on the classification and measurement of the Group's financial liabilities.

b. AASB 15 *Revenue from contracts with customers*

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, any cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated.

Revenue of the Group arises mainly from the sale and licencing of Driver (or Operator) Monitoring System ("DMS") hardware and software, after-sales monitoring and consulting services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer

2. Identifying the performance obligations

3. Determining the transaction price

4. Allocating the transaction price to the performance obligations

5. Recognising revenue when/as performance obligation(s) are satisfied.

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:

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 control 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). Revenue is recognised to the extent the Group does not expect significant reversal.

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.

Rendering of services

Revenue from support and consultancy, including monitoring services, is recognised by reference to the stage of completion of a contract or contracts in progress at reporting 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 reporting date, as such the level of judgement required is minimal. Revenue is only recognised to the extent the Group expects no significant reversals.

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.

Agreements with multiple deliverables

Where the Group enters into agreements for the provision of both goods and services as part of a single arrangement, each deliverable that is considered to have a value to the customer on a standalone basis is accounted for separately. The consideration from the arrangement is allocated to each deliverable based on the relative stand-alone selling prices of those deliverables. In the absence of a stand-alone selling price, the deliverable is measured based on the best estimate of the stand-alone selling price. The price of each component is set in order to achieve a margin on that component of the sale consistent with that which would be achieved if the Group sold each item separately.

Paid Research

The Group receives funding for research activities. These are typically multi-year agreements where the Group is paid after the achievement of certain milestones. Revenue is recognised once the milestone has been achieved.

Research and development refundable tax offset

Any refundable tax offset receivable under the government's research and development scheme is brought to account as accrued income when it is deemed virtually certain that the cash refund will be received by the Group and the value of the refund can be measured reliably. The refundable tax offset is recognised as grant income during the financial year to the extent that research and development costs have been expensed in the financial year. Any refundable tax offset related to research and development costs capitalised in the financial year is deferred and recognised in the relevant year, per the matching principle, proportionate to the amortisation of these costs.

Timing of Revenue Recognition

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

If the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Impact of Adoption of AASB 15

In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 has not had a material impact on the Group's financial position or performance and there has been no adjustment to the opening balance of retained earnings at 1 July 2018 as a consequence of the adoption of this standard.

In accordance with AASB 15 the Group has provided disaggregated revenue information in addition to segment information at Note 3 to better enable users of the financial statements to understand how revenue is generated.

2. Going concern basis of accounting

The financial report has been prepared on the going concern basis. The Group has made a loss for the half year of A$24,683,205 (2017: loss of A$16,711,460). The Group has accumulated losses of A$120,215,993 (30 June 2018: A$95,439,981). The balance of cash and cash equivalents at 31 December 2018 is A$26,861,073 (30 June 2018: A$42,786,447). 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 by reducing existing levels of expenditure. Notwithstanding this forecast, the Group continues to evaluate the potential of raising additional capital to meet its ongoing working capital requirement. If the Group is unable to obtain such funding or reduce its expenditure the Group may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company cease as a going concern.

3. Segment and revenue information

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 operational decision makers to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available. Management also considers 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 Operating Segments 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.

Segment revenue based on operating segment

For management purposes, the Group is organised into key business units based on its products and services.

FOR THE HALF YEAR ENDED 31 DECEMBER		Segment Revenue Dec 2018 A$	Segment Revenue Dec 2017 A$	Segment Profit Dec 2018 A$	Segment Profit Dec 2017 A$
Revenue					
Automotive		4,661,645	6,882,223	1,649,287	2,994,458
Off-Road		4,552,722	1,324,732	2,219,430	1,007,743
Fleet		4,248,970	5,868,572	(8,675,620)	(10,142,280)
Aviation		120,633	121,011	9,625	(456,036)
Scientific Advances		460,000	450,000	(61,830)	133,055
Total		14,043,970	14,646,538	(4,859,108)	(6,463,059)
Total other income		678,787	328,470	678,787	328,470
Total research & development expense	5			(20,452,884)	(10,576,871)
Total consolidated revenue – (Loss)		14,722,757	14,975,008	(24,633,205)	(16,711,460)

Disaggregation of revenue

In the following tables, revenue segments have been disaggregated by type of goods or services which also reflects the timing of revenue recognition.

FOR THE HALF YEAR ENDED 31 DECEMBER 2018	Automotive A$	Off-Road A$	Fleet A$	Aviation A$	Scientific Advances A$	Total A$
Revenue Types						
Sales at a point in time						
Hardware and Installations	1,303,507	11,277	1,798,386	83,633	-	3,196,803
Non-recurring Engineering	3,358,138	-	-	-	-	3,358,138
Paid Research	-	387,414	20,219	37,000	460,000	904,633
Sales over time						
Driver Monitoring	-	-	2,430,365	-	-	2,430,365
Licensing	-	4,154,031	-	-	-	4,154,031
Total Revenue	4,661,645	4,552,722	4,248,970	120,633	460,000	14,043,970

FOR THE HALF YEAR ENDED 31 DECEMBER 2017	Automotive A$	Off-Road A$	Fleet A$	Aviation A$	Scientific Advances A$	Total A$
Revenue Types						
Type of goods or service						
Hardware and Installations	2,213,243	-	4,690,580	121,011	-	7,024,834
Non-recurring Engineering	4,668,980	-	-	-	-	4,668,980
Paid Research	-	217,593	850	-	450,000	668,443
Sales over time						
Driver Monitoring	-	-	1,177,142	-	-	1,177,142
Licensing	-	1,107,139	-	-	-	1,107,139
Total Revenue	6,882,223	1,324,732	5,868,572	121,011	450,000	14,646,538

4. Other income

FOR THE HALF YEAR ENDED 31 DECEMBER	Consolidated Dec 2018 A$	Consolidated Dec 2017 A$
Research and Development refundable tax offsets	121,493	121,493
Gain on disposal of investment	39,488	-
Other income	15,931	-
	176,912	121,493

5. Research and development expenses

The total research and development expenses in H1FY19 of A$20,452,884 includes A$7,455,230 in relation to a non-cash expense, resulting from a one-off performance award.

In June 2018 the Group made a one-off conditional award of performance rights in respect of 63,176,250 ordinary shares to certain key staff members. This one-off Award was in recognition of the significant contribution, expertise, experience and performance of those individuals over recent years, significantly contributing to the Group's current achievements, as well as retaining this talent for future delivery of current projects and winning new programs. The performance rights issued pursuant to the award will vest annually in three equal tranches (subject to continued employment) with the first having vested in October 2018. In the case of the two founders included in this group of individuals, Seeing Machines' Chief Technology Officer and Chief Scientific Officer, the Award was accelerated to vest in three tranches starting in October 2018, and to be fully vested by 1 April 2019.

In accordance with the requirements of AASB 2 *Share-based Payments* the shares are valued at grant date with that value being amortised over the vesting period.

The balance of research and development expense relates to ongoing investment in the group's core technology.

6. Cash and cash equivalents

AS AT 31 DECEMBER	Consolidated Dec 2018 A$	Consolidated June 2018 A$
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	26,861,073	42,786,447
	26,861,073	42,786,447

7. Trade and other receivables

AS AT 31 DECEMBER	Consolidated Dec 2018 A$	Consolidated June 2018 A$
Current		
Trade receivables	14,506,706	20,272,066
Provision for expected credit losses	(271,419)	-
Deferred finance income	(811,334)	(937,864)
	13,423,953	19,334,202
Customer units to be returned	706,897	-
Receivables subject to financial guarantee (refer Note 10)	1,056,075	-
Other receivables	481,028	423,446
	15,667,953	19,757,648

8. Inventories

AS AT 31 DECEMBER	Consolidated Dec 2018 A$	Consolidated June 2018 A$
Finished goods	8,881,298	4,300,895
Write-down of inventories for the period	(189,556)	-
	8,691,742	4,300,895

9. Property, plant and equipment

During the half year ended 31 December 2018, the Group acquired assets with a cost of A$249,100 (December 2017: A$740,154). The majority of these purchases are related to plant and equipment consisting of office laptops, desktops and monitors, and lab equipment. No assets were disposed of and the net movement in property, plant and equipment after depreciation was (A$257,431).

10. Intangible Assets

During the half year ended 31 December 2018, the Group purchased intangibles totalling A$262,166 (December 2017: A$182,378). These purchases are related to trademark and patent applications. There were no disposals of intangible assets during the period and the net movement in intangible assets net of amortisation was (A$455,100).

11. Financial liabilities (current and non-current)

Arrangements continued during the half year for the lease of equipment, and to securities a customer debtor (combined total A$1.2m). On 17 July 2018 the Group drew down US$2m (A$2.8m) from Export Finance & Insurance Corporation in relation to the financing of inventory for sales to approved overseas customers.

During the half year the Group entered into a financial guarantee contract to guarantee the repayment of a customer loan (A$1.1m), used to purchase inventory from the Group. Although the loan funds were used to pay the Group for the sale, the risks relating to the receivable had not been transferred as a result of the guarantee and in accordance with the requirements of AASB 9 Financial Instruments, could not be derecognised. As a result both a receivable and financial liability have been recognised. The receivable and financial liability are derecognised to the extent the underlying exposure has been settled.

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings and financial guarantees.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

12. Dividends paid

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

13. Shares issued during the half year

In November 2018, the non-executive directors received 25 percent of their annual remuneration in the form of new Ordinary Shares, issued annually in arrears. The total number of new ordinary shares issued for this purpose was 533,442. The total value of these shares is A$63,467.

During the half year ended 31 December 2018, 45,494,528 shares were issued and are held on trust for the benefit of employees, following the vesting of certain performance rights and options under the terms of the Group's Employee Benefits Plan. These shares are held in the existing Group trust until such time as the beneficiaries of the Award exercise the performance rights and / options. On the exercise of such performance rights and / options, the Trust will transfer the shares to the relevant beneficiary.

14. Commitments

Operating lease commitments – Group as lessee

The Group has one operating lease on a property in Australia and one in the United States.

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

	Consolidated	
	Dec 2018 A$	**Dec 2017 A$**
Within one year	1,231,894	1,011,657
After one year but not more than five years	4,592,241	3,653,932
More than five years	3,525,435	4,017,732
	9,349,570	8,683,321

Finance leases and hire purchase commitments – Group as lessee

The Group has three leasing/financing arrangements in relation to equipment. The first two relate to the lease of IT equipment and expire in July 2019 and October 2021. The other relates to the financing of hardware and support and expires in October 2022.

Payments required under these arrangements are as follows:

	Consolidated	
	Dec 2018 A$	**Dec 2017 A$**
Within one year	512,093	-
After one year but not more than five years	842,150	-
Minimum payments	1,354,243	-
Less: Future finance charges	(171,858)	-
Present value of minimum payments	1,182,385	-

15. Related party disclosure

(i) Subsidiaries

On 29 August 2018 Seeing Machines Limited established a new entity in Japan; Seeing Machines Japan. Seeing Machines Limited paid ¥1,000,000 Yen (A$12,132) for the initial share capital.

Apart from this, the composition of the Group has remained unchanged from 30 June 2018.

(ii) Directors' shareholdings in Seeing Machines Limited

31 December 2018	Balance 01 July 18	Granted as remuneration	Acquired or sold for cash	Net change other	Balance 31 Dec 18
Directors					
K Kroeger[1]	8,331,393	-	400,000	-	8,731,393
T Crane	156,753	102,585	384,615	-	643,953
R Burger	503,798	102,585	-	-	606,383
J A Walker (resigned 13/12/2018)	604,558	123,102	-	-	727,660
L Carmichael	327,402	102,585	-	-	429,987
Yong Kang NG[2]	308,605	102,585	1,000,000	-	1,411,190
Jack Boyer (appointed 16/07/2018)	-	-	-	-	-
Kate Hill (appointed 13/12/2018)	-	-	-	-	-
	10,232,509	533,442	1,784,615	-	12,550,566

1. Ken Kroeger holds 35.8% of these shares through Cook Kroeger Superannuation Fund and has been issued a further 9,977,819 performance rights, of which 3,476,525 have vested but remain unexercised.

2. Yong Kang NG has an additional indirect interest in the Company by virtue of his direct and deemed (by virtue of his spouse) ownership of shares in V S Industry Berhad (VSI), being 0.084% of VSI's current issued share capital.

(iii) Other Director-related transactions

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

16. Key management personnel

a. Details of Key Management Personnel

(i) Directors

Jack Boyer	Chairman (appointed as a director 16 July 2018, appointed as Chairman 19 September 2018)
Ken Kroeger	CEO & Executive Director
Luke Oxenham	CFO & Finance Director (appointed 3 December 2018)
James Allan Walker	Deputy Chairman (resigned 13 December 2018)
Les Carmichael	Non-Executive Director
Rudolph Burger	Non-Executive Director
Yong Kang (YK) Ng	Non-Executive Director
Tim Crane	Non-Executive Director
Kate Hill	Non-Executive Director (appointed 13 December 2018)

(ii) Executives

Nick Difiore	Senior Vice President and General Manager, Automotive
Paul McGlone	General Manager, Fleet, Rail & Off Road Applications

(commenced 19 November 2018)

Paul Angelatos	Senior Vice President and General Manager, Fleet, Rail & Off Road Applications (resigned 14 September 2018)
Tim Edwards	Chief Technology Officer
Sebastian Rougeaux	Chief Scientist, Machine Intelligence
Mike Lenné	Chief Scientist, Human Factors
Patrick Nolan	General Manager, Aviation
Nicole Makin	Senior Vice President People and Culture
Daniel Edmunds	Senior Vice President Engineering (1 December 2018)
Ryan Murphy	Company Secretary and Chief Operating Officer (commenced 15 October 2018)
James Palmer	Chief Financial Officer (resigned 31 January 2019)
Luke Oxenham	Chief Financial Officer (commenced 3 December 2018)

b. Compensation for Key Management Personnel

	Half-year to December 2018 A$	Half-year to December 2017 A$
Short-term employee benefits	2,284,811	2,480,327
Share based payments	5,502,431	598,236
	7,787,242	3,078,563

17. Share based payments

a. Recognised share based payment expenses

	Consolidated	
	Dec 2018 A$	Dec 2017 A$
Expense arising from share-based payment transactions under Employee Share Loan	-	87,935
Expense arising from performance rights under long term incentive	8,384,524	121,392
Expense arising from options under long term incentive	35,844	375,339
Expense arising from the shares issued to the employees	152,762	-
Add directors shares	63,467	90,166
	8,636,597	674,832

b. 2010 Executive Share Plan
In July 2010 the Company adopted an Executive Share Plan (2010 Plan). Under the 2010 Plan the Board may offer and issue ordinary fully paid shares (Shares) to employees or officers (including Directors) of the Company from time to time. The Company has made the following types of offers under the 2010 Plan:

(iii) Issue of shares up-front

The Company has issued Shares to; eligible staff who are not covered by the Company's other incentive scheme; executives as a short-term incentive; and non-executive Directors as part of their remuneration. A total of 1,376,785 shares were issued under this arrangement during the previous half year. The issue price for these Shares was 6.75 pence being the volume weighted average closing share price on the AIM taken over the 5 trading days from 19 to 25 September 2018 (then converted using the current foreign exchange rate, of 1 GBP = 1.80591 AUD). There are no loans for these Shares and they vest on issue.

(iv) Long Term Incentive – Performance Rights Offers

From 1 July 2015, senior staff and other key staff are offered long term performance rights or share options. Under this structure, the staff are only able to exercise the rights, and have New Ordinary Shares issued to them, if the performance and/or vesting conditions are met. These conditions typically include a vesting period of 2-3 years from the end of the relevant financial year. Performance rights or options are often offered as part of the annual remuneration review and may be offered at other times. Any offer of performance rights or options requires Board approval and, when granted, is announced to the market.

For all options standard valuation methodologies are used (binomial, trinomial and Black Scholes) using historic volatility as a proxy for implied volatility, long term UK gilt prices for the risk free rate and AIM share price information.

The Company issues new shares periodically as options and performance rights vest, the shares are held by a trustee until such time as the employee exercises their options or performance rights.

Summary of Performance Rights offers granted	**December 2018** No.	**December 2018** WAEP (cents)	**December 2017** No.	**December 2017** WAEP (cents)
Outstanding at the beginning of the financial period	110,887,918	14.07	33,856,297	6.78
Granted during the financial period	20,969,081	10.47	33,223,091	4.79
Forfeited during the financial period	(13,170,926)	19.09	(824,531)	4.79
Exercised during the financial period	(15,662,453)	9.15	-	-
Expired during the financial period	-	-	-	-
Outstanding at 31 December	103,023,620	7.84	66,254,857	5.81
Exercisable at 31 December	48,961,319	7.26	-	-

18. Events after balance date

The Group has an Export Line of Credit Agreement with the Export Finance and Insurance Corporation which was signed on 31 January 2019. The Agreement provides a revolving loan facility to the Group up to the value of US$3.5 million for funding inventory purchases for sales to approved overseas customers. On 18 February the Group drew down in part on the loan facility providing a cash inflow of US$0.15 million.

On 19 February 2019, the Group secured a further program design win, working with a major Tier 1 partner, for a US Based OEM to deliver the Group's Driver Monitoring System (DMS) technology. Mass production is scheduled from late 2020 and the technology will be delivered on Seeing Machines' proprietary FOVIO Chip. The estimated lifetime revenue value of this program is initially estimated at A$6m based on initial models included in the agreement. The first material production revenue is expected to be recognised in Seeing Machines' 2021 financial year.