



seeingmachines

ABN 34 093 877 331

Seeing Machines Limited

Half Year **Financial Report**

For the half year ended 31 December 2019

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Directors' Report

Your Directors submit their report for the half-year ended 31 December 2019.

Directors

The names of the Directors of Seeing Machines Limited (the "Company") in office during the half-year and until the date of this report are listed below. All Directors were in office for this entire period covered by the report unless otherwise stated.

Kate Hill	Non-Executive Director and Chair
Paul McGlone	Executive Director & Chief Executive Officer, Appointed: 4 July 2019
Rudolph Burger	Non-Executive Director
Les Carmichael	Non-Executive Director
Yong Kang (YK) Ng	Non-Executive Director
Gerhard Vorster	Non-Executive Director, Appointed: 1 December 2019
John Murray	Non-Executive Director, Appointed: 1 December 2019
Jack Boyer	Non-Executive Director and Chair, Resigned: 19 July 2019
Luke Oxenham	CFO & Finance Director, Resigned: 22 July 2019

Review of Operations

Financial Results

The Group's total sales revenue for the half year (excluding foreign exchange gains and finance income) was A\$15.8m compared to the half year for FY2019 revenue of A\$14.0m, representing a 12.8% growth on the comparative period.

Product/Sales	H1FY20	H1FY19	Variance
	\$'000	\$'000	%
Automotive	2,715	4,662	-42
Fleet and Offroad	12,866	8,801	46
Aviation	240	121	99
Scientific Advances	10	460	-98
Sales Revenue	15,831	14,044	13

Monitoring services revenue in Fleet grew by more than 67% to \$4.1m for the half year, compared to \$2.4m for the same period last year. The increase in Fleet revenue reflects both improved pricing and increase in installed units.

Installed Guardian units have increased by over 4,500 from 16,000 to more than 20,500 connected units this half; a 50% growth in connections over the same period last year (H1FY19: 3,000 units), demonstrating ongoing momentum for Fleet.

Automotive experienced a comparative decline, largely due to the fluctuations in nature and timing of Non-Recurring Engineering (NRE) as work successfully draws to a close and pre-production technology samples are delivered to customers. Automotive revenue is expected to dramatically increase between FY2021 to FY2026 when Original Equipment Manufacturers (OEMs) begin mass production on vehicles under existing Driver Monitoring System (DMS) technology program awards.

Gross profit has declined compared to last half year by \$3.2m or 36%; the primary driver is a reclassification of engineering development expenditure from operational expenses to cost of sales which is now directly assigned to commercial NRE contracts in Automotive, while the remaining decline is reflective of the contribution margin mix where Fleet attracts lower margins comparative to Automotive. Historically it has been difficult to separate core engineering work from specific projects, however as the Automotive business grows, more of the Group's engineering work can be attributed to specific commercial activities. The comparative figure has not been reclassified. Furthermore, gross profit is impacted by the mix of products and services delivered in any particular period.

Review of Operations (continued)

The ongoing cost of Guardian hardware was successfully reduced by 21% during the period and is expected to deliver improvements in gross margin and savings of approximately A\$8.4m on Seeing Machines' current volume order which is to be delivered in batches to the Group and its channel partners over the next calendar year, to meet the expected global demand.

Finance income of \$0.6m for the half year is consistent with last half year and relates to interest on financed Fleet Guardian sales.

Research and development expenses declined in line with the reclassification of part of the engineering development expenditure from operational expenses to cost of sales. In addition, the prior half year bore a significant non-cash charge for the amortisation of share based payments, which was not repeated to the same extent in the current period. Underlying spend on research and development was maintained during the period as the company continues to build its core technology and respond to the opportunities across its three operating segments.

Corporate services expenses increased as Seeing Machines substantially matured its corporate infrastructure in areas such as Information Systems to comply with General Data Protection Regulation (GDPR) and enhance data and cyber security as well as Legal and Compliance where traditionally this work was largely outsourced, enabling the Group to expedite contract negotiations and streamline compliance across all areas of the business. In addition, corporate services expenses included approximately \$1m of one off expenditure related to strategic corporate activities.

Cash and cash equivalents at 31 December totalled \$47.4m (H1FY18: \$26.8m).

Operational Highlights

Momentum continues to accelerate across all transport sectors for Seeing Machines as driver monitoring and eye-tracking technology become a requirement for safety in Automotive, Commercial Fleet and increasingly across the Aviation industry to enhance training capabilities and efficiencies. The Group has continued to lead the markets in each of these industries to support major customers and partners in embracing the rapidly growing adoption of this developing technology. Partnerships with key brands across Automotive, as well as strong ties with regulatory bodies in Europe and the USA have enabled Seeing Machines to position itself as a leading source for this technology.

Seeing Machines' management and Board of Directors has been strengthened with the appointment of Naomi Rule as CFO and the addition of two non-executive directors, John Murray and Gerhard Vorster. The Group is well placed to navigate the growth that it anticipates as key markets recognise the need for driver monitoring technology.

Automotive

Seeing Machines has nine ongoing program engagements with six Automotive OEMs, expected to generate a minimum of A\$200m in revenue, with the bulk to be recognised between 2021 and 2024. The establishment of Seeing Machines Germany GmbH will serve as the hub of the Group's European Automotive business and operations where a large proportion of won and expected business is to be managed. The team in Europe is set to expand with the appointment of an additional headcount there and in Asia, Japan will be supported by two more Automotive focused appointments to effectively manage the expected momentum in the Asia region.

Regulatory driven demand represents a key factor in the growing acceptance of DMS technology around the world. The European Council has adopted a regulation that calls for the adoption of safety features that include advanced driver distraction warning systems and driver drowsiness and attention warning systems, required across all new cars, vans, trucks and buses from 2024. The European New Car Assessment Programme ("Euro NCAP") also requires driver drowsiness and distraction detection to achieve safety ratings from 2022 and in the US, the National Transportation Safety Board, has recommended that OEMs include direct driver monitoring to assure driver attentiveness in semi-automated vehicles as well as pointing to a requirement for 'adequate monitoring of vehicle operator management, if applicable', in self-driving cars.

Seeing Machines has partnered with a range of suppliers to support its OEM customers as they work to implement DMS technology, having announced an extended supply agreement with its silicon partner, Xilinx, to provide semi-custom versions of its automotive grade devices, supporting the Group's FOVIO Chip solution for the automotive market.

Review of Operations (continued)

In anticipation of the publication of Euro NCAP protocols for five-star safety ratings, the Group recently launched a reduced cost variant of the FOVIO Chip specifically targeting these requirements, boasting the world's highest performing, lowest cost solution, now developed in readiness to support OEMs who require safety based DMS technology able to be implemented in short lead-times.

The Group also announced a collaboration with Qualcomm Inc., to deliver DMS solutions on high-end infotainment platforms, a solution currently being jointly developed for a leading European OEM, and both companies intend to support this integrated solution more broadly across the industry into the future.

As OEMs strive to differentiate their vehicle offerings and meet growing regulatory demands, Seeing Machines is uniquely positioned to provide the accurate and reliable driver state information required to ensure safe semi-autonomous vehicle operation, improve the effectiveness of Advanced Driver Assistance Systems, and enable new innovative driver information, comfort, and convenience systems. Recognising the diversity of OEM needs, the Group is positioned to provide a range of DMS solutions spanning features, performance, and integration goals at competitive price points. Seeing Machines continues to see, and respond to, a rich mix of OEM opportunities across the world with both existing and new customers, and expects to be successful on a number of RFQs over the calendar year.

Fleet and Offroad

The Fleet business continues to grow as the requirement for driver monitoring and other safety technology across commercial vehicles is becoming more commonplace, with regulation also expected to have a positive impact. Seeing Machines' Guardian technology is now connected to over 20,500 commercial and transport related vehicles in more than 26 countries globally.

Guardian hardware costs have been significantly reduced, delivering substantial savings to the Group and its channel partners over the next calendar year. Seeing Machines is currently working with 14 channel partners, including Caterpillar Inc., to distribute Guardian globally. Countries covered by channel partners include the US, UK, South Africa, Dubai, Thailand, Turkey, Taiwan, South East Asia, Chile, Mexico, New Zealand and Australia and as this network expands, the Group expects global sales through this channel to increase.

Insurance endorsements are adding to increased demand with existing exclusive agreements in place in Australia and Mexico, and a range of advanced opportunities in three additional geographies. Ultimately, mutual customers, under these arrangements, are eligible for insurance policy benefits and financial incentives that help remove sales barriers and raise awareness.

Aviation

Seeing Machines Aviation has launched its Crew Training System (CTS) to support pilot training in both commercial and military simulators and continues to see increasing demand from simulator manufacturers to enhance pilot training at major global carriers with increased efficiencies using the Group's eye-tracking technology.

Seeing Machines has successfully deployed its CTS into Full Flight Simulators at the operational flight training capability for a major Australian airline and multiple Full Mission Simulators for the Royal Australian Air Force.

Seeing Machines also announced a collaboration with Alaska Airlines, the fifth largest airline in the United States, to enhance pilot training and safety to understand how pilots scan and monitor instruments during complex manoeuvres and instrument flying procedures. The partnership has developed a proof of concept for Seeing Machines' Crew Training System in an Alaska Airlines Boeing 737 Full Flight Simulator environment.

As the aviation industry faces strong growth, major pilot shortage, doubling of the commercial fleet, increased levels of automation in air traffic control and the requirement for safer traffic management across global airline routes, Seeing Machines' Aviation division continues to engage with some of the largest global brands to develop additional pathways for Seeing Machines technology to manage pilot monitoring in aircraft operations and in support of air traffic control operations.

Review of Operations (continued)

Position Holders During the Period

Chief Executive Officer

The Group's Chief Executive Officer as at the date of this report is Paul McGlone.

Company Secretary

As at the date of this report the Company Secretary is Susan Dalliston.

Employee Numbers

At 31 December 2019 the Group had 268 full-time employees (228 employees at 30 June 2019).

Principal Activities

The Group's principal activities during the half year were:

- Developing, selling and licensing products, services and technology to detect and manage driver fatigue and distraction, including continued market development to secure sustainable channels to market for the product;
- Developing driver-monitoring technology to be incorporated into passenger cars;
- Entering commercial agreements with partners for the development, manufacturing and sale of products into key target markets;
- Research and development of the Group's core vision processing technologies to support the development and refinement of the Group's products.

Changes in State of Affairs

During the half year there was no significant change in the state of affairs of the Group other than those referred to elsewhere in this report and in the financial statements or notes thereto.

Environmental Regulations

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

Directors and Officers Insurance

During the half year, the Company paid a premium in respect of a contract insuring the Directors of Seeing Machines Limited (and its wholly owned subsidiaries), the Company Secretary, and all executive officers of those companies 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.

Indemnification of Auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during the half year.

Review of Operations (continued)

Non-Audit Services

Ernst & Young rendered consulting services in connection with the taxation affairs of Seeing Machines Limited.

The Board of Directors is satisfied that the provision of non-audit services during the half year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services did not compromise the external auditor's independence as the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110 *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

Signed at Canberra this 06 March 2020 in accordance with a resolution of the Directors made pursuant to *section 298(2) of the Corporations Act 2001*.

On behalf of the Board

A handwritten signature in blue ink, appearing to read 'Paul McGlone', is positioned above the printed name and title.

Paul McGlone
Executive Director & Chief Executive Officer

Interim Consolidated Statement of Financial Position

AS AT	Notes	Consolidated	
		31 DEC 2019 A\$	30 JUN 2019 A\$
ASSETS			
CURRENT ASSETS			
Cash and short-term deposits	9	47,349,850	54,808,736
Trade and other receivables	8	13,027,358	15,670,345
Inventories	7	5,974,566	8,212,229
Current financial assets	8	511,616	9,560,716
Other current assets		4,476,075	4,759,995
TOTAL CURRENT ASSETS		71,339,465	93,012,021
NON-CURRENT ASSETS			
Property, plant & equipment	6	3,357,715	2,939,887
Right-of-use assets	2	4,748,726	5,153,803
Intangible assets	10	1,796,453	2,539,358
TOTAL NON-CURRENT ASSETS		9,902,894	10,633,048
TOTAL ASSETS		81,242,359	103,645,069
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	8	4,787,366	3,620,382
Provisions		3,196,066	2,832,018
Current financial liabilities	8	673,665	903,087
Contract liabilities		534,509	672,590
Interest-bearing loans and borrowings	8	891,953	1,114,223
TOTAL CURRENT LIABILITIES		10,083,559	9,142,300
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	8	6,357,714	6,810,549
Provisions		200,557	213,034
TOTAL NON-CURRENT LIABILITIES		6,558,271	7,023,583
TOTAL LIABILITIES		16,641,830	16,165,883
NET ASSETS		64,600,529	87,479,186
EQUITY			
Contributed equity		217,466,796	217,203,578
Treasury shares		-	(1,108,511)
Accumulated losses		(162,879,979)	(137,928,179)
Other reserves		10,013,712	9,312,298
Equity attributable to equity holders of the parent		64,600,529	87,479,186
TOTAL EQUITY		64,600,529	87,479,186

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	Notes	Consolidated	
		2019 A\$	2018 A\$
Sale of goods and licence fees		8,721,460	6,902,776
Rendering of services		6,946,573	6,644,193
Research revenue		163,454	497,000
Revenue	3	15,831,487	14,043,969
Cost of sales		(10,193,693)	(5,182,940)
Gross profit	4	5,637,794	8,861,029
Net gain in foreign exchange		433,126	676,047
Finance income		568,847	501,875
Other income		322,436	137,424
Net gain/(loss) on disposal of investment		-	39,487
Expenses			
Research and development expenses	5	(15,743,175)	(20,702,197)
Customer support and marketing expenses		(5,304,083)	(5,795,361)
Occupancy and facilities expenses		(1,108,059)	(1,838,245)
Corporate services expenses		(9,447,858)	(6,160,980)
Finance costs		(307,052)	(442,538)
Loss before tax		(24,948,024)	(24,723,459)
Income tax expense		(3,775)	(2,930)
Loss after income tax		(24,951,799)	(24,726,389)
Loss for the period			
Attributable to:			
Equity holders of the parent		(24,951,799)	(24,726,389)
Other comprehensive (loss)/ income - to be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		129,792	(325,785)
Other comprehensive income/(loss) net of tax		129,792	(325,785)
Total comprehensive loss		(24,822,007)	(25,052,174)
Total comprehensive loss attributable to:			
Equity holders of the parent		24,822,007	25,052,174
Total comprehensive loss for the period		(24,822,007)	(25,052,174)
Earnings per share for loss attributable to the ordinary equity holders of the parent:			
Basic earnings per share		(0.02)	(0.01)
Diluted earnings per share		(0.02)	(0.01)

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

Interim Consolidated Statement of Changes in Equity

	Contributed Equity A\$	Treasury Shares A\$	Accumulated Losses A\$	Foreign Currency Translation Reserve A\$	Employee Equity Benefits & Other Reserve A\$	Total Equity A\$
As at 1 July 2018 (restated)	158,031,370	(1,108,511)	(96,133,238)	(1,146,201)	2,989,898	62,633,318
Effect of adoption of new accounting standards (AASB9)	-	-	(92,807)	-	-	(92,807)
As at 1 July 2018 (restated)	158,031,370	(1,108,511)	(96,226,045)	(1,146,201)	2,989,898	62,540,511
Loss for the half year	-	-	(24,726,389)	-	-	-(24,726,389)
Other comprehensive income	-	-	-	(325,785)	-	(325,785)
Total comprehensive income	-	-	(24,726,389)	(325,785)	-	-(25,052,174)
Transactions with owners in their capacity as owners:						
Shares issued	773,593	-	-	-	-	773,593
Employee shares held in trust	-	-	-	-	8,456,010	8,456,010
At 31 December 2018	158,804,963	(1,108,511)	(120,952,434)	(1,471,986)	11,445,908	46,717,940
As at 1 July 2019	217,203,578	(1,108,511)	(137,928,179)	(1,738,216)	11,050,514	87,479,186
Loss for the period	-	-	(24,951,799)	-	-	-(24,951,799)
Other comprehensive income	-	-	-	129,792	-	129,792
Total comprehensive income	-	-	(24,951,799)	129,792	-	-(24,822,007)
Transactions with owners in their capacity as owners:						
Reclassification of treasury shares	-	1,108,511	-	-	(1,108,511)	-
Shares issued	263,218	-	-	-	-	263,218
Employee shares held in trust	-	-	-	-	1,680,132	1,680,132
At 31 December 2019	217,466,796		-(162,879,978)	(1,608,424)	11,622,135	64,600,529

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

Interim Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER	Note	Consolidated	
		2019 A\$	2018 A\$
Operating activities			
Receipts from customers (inclusive of GST)		21,082,186	16,532,376
Payments to suppliers and employees (inclusive of GST)		(36,511,608)	(36,063,076)
Government Grants received		-	460,000
Interest received		366,965	170,133
Interest paid		(307,052)	(156,826)
Income tax paid		(3,775)	(115,484)
Net cash flows used in operating activities		(15,373,284)	(19,172,877)
Investing activities			
Purchase of plant and equipment	6	(681,282)	(249,100)
Payments for intangible assets		(233,042)	(262,166)
Proceeds from held to maturity financial assets		9,049,100	66,959
Net cash flows from/(used in) investing activities		8,134,776	(444,307)
Financing activities			
Payment of finance lease liabilities		(387,478)	(216,605)
Proceeds from exercise of share options		-	607,365
Proceeds from borrowings		-	3,124,063
Repayment of borrowings		(292,147)	(209,196)
Net cash flows (used in)/from financing activities		(679,625)	3,305,627
Net (decrease) in cash and cash equivalents		(7,918,133)	(16,311,557)
Net foreign exchange difference		459,247	386,183
Cash and cash equivalents at 1 July		54,808,736	42,786,447
Cash and cash equivalents at 31 December	9	47,349,850	26,861,073

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

The interim consolidated financial statements of Seeing Machines Limited and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 06 March 2020.

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.

2 Basis of preparation and changes to the Group's accounting policies

i Basis of preparation

The interim consolidated financial statements for the half year ended 31 December 2019 have been 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 consolidated financial statements as at 30 June 2019.

ii New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019 and a change to our cost of sales accounting policy.

The Group applies, for the first time, AASB 16 *Leases* that requires restatement of previous financial statements. As required by AASB 134, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim consolidated financial statements of the Group.

AASB 16 Leases

AASB 16 supersedes AASB 117 *Leases*, AASB Interpretation *Determining whether an Arrangement contains a Lease*, AASB Interpretation *Operating Leases-Incentives* and AASB Interpretation *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted AASB 16 using the full retrospective method of adoption with the date of initial application of 1 July 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adopting AASB 16 is, as follows:

2 Basis of preparation and changes to the Group's accounting policies (continued)

ii New standards, interpretations and amendments adopted by the Group (continued)

Impact on the statement of financial position (increase/(decrease)) as at 30 June 2019

	30 JUN 2019
	<u>A\$</u>
Assets	
Right-of-use assets	5,153,803
Property, plant and equipment	<u>(236,461)</u>
Total assets	4,917,342
Equity	
Retained earnings	<u>(600,448)</u>
Total equity	(600,448)
Liabilities	
Interest-bearing loans and borrowings	6,791,485
Provisions	60,005
Other liabilities	<u>(1,333,701)</u>
Total liabilities	5,517,789

Impact on the statement of profit or loss (increase/(decrease)) for the half year ended 31 December 2018:

	31 DEC 2018
	<u>A\$</u>
Depreciation expense (included in Administrative expenses)	345,880
Rent expense (included in Cost of sales and Administrative expenses)	<u>(538,409)</u>
Operating profit	192,529
Finance costs	<u>285,712</u>
Loss for the period	(93,183)
Attributable to:	
Equity holders of the parent	(93,183)

Impact on the statement of cash flows (increase/(decrease)) for the half year ended 31 December 2018:

	31 DEC 2018
	<u>A\$</u>
Net cash flows from operating activities	216,605
Net cash flows from financing activities	<u>(216,605)</u>

There is no material impact on other comprehensive income and the basic and diluted EPS.

a) Nature of the effect of adoption of AASB 16

The Group has lease contracts for office space, and some IT equipment. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2 Basis of preparation and changes to the Group's accounting policies (continued)

ii New standards, interpretations and amendments adopted by the Group (continued)

In accordance with the full retrospective method of adoption, the Group applied AASB 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in this interim consolidated financial statements has been restated.

As at 30 June 2019:

- Right-of-use assets of \$5,153,803 were recognised and presented separately in the statement of financial position.
- Property plant and equipment of \$236,461 was derecognised in the financial position.
- Additional lease liabilities of \$6,791,485 were recognised and included under Interest bearing loans and borrowings.
- Make good provision of \$60,005 was recognised and included under Provisions
- Other current liabilities of \$289,361 and Other non-current liabilities of \$1,044,340 related to lease incentive received on the Group's head office were derecognised.
- The net effect of these adjustments had been adjusted to Retained earnings (\$600,448).

For the half year ended 31 December 2018:

- Depreciation expense increased by \$345,880 relating to the depreciation of additional assets recognised (i.e., increase in right-of-use assets, net of decrease in Property, plant and equipment).
- Rent expense decreased by \$538,409 relating to previous operating leases.
- Finance costs increased by \$285,712 relating to the interest expense on additional lease liabilities recognised.
- Cash outflows from operating activities decreased by \$216,605 and cash outflows from financing activities increased by the same amount, representing the payments for the principal portion of recognised lease liabilities.

b) Summary of new and revised accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16:

- *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

2 Basis of preparation and changes to the Group's accounting policies (continued)

ii New standards, interpretations and amendments adopted by the Group (continued)

- *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

- *Significant judgement in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets			Lease liabilities
	Office Space	Other equipment	Total	
	A\$	A\$	A\$	
As at 30 June 2019	4,917,342	236,461	5,153,803	7,135,125
Additions	-	-	-	-
Depreciation expense	(348,782)	(58,365)	(407,147)	-
Interest expense	-	-	-	281,552
Payments	-	-	-	(636,712)
As at 31 December 2019	4,568,560	178,096	4,746,656	6,779,965

Set out below, are the amounts recognised in profit or loss:

	For the half year ended 31 December	
	2019	2018
	A\$	A\$
Depreciation expense of right-of-use assets	408,226	345,880
Interest expense on lease liabilities	281,552	285,712
Rent expense - short-term leases	80,143	16,619
Total amounts recognised in profit or loss	769,921	648,211

2 Basis of preparation and changes to the Group's accounting policies (continued)

ii New standards, interpretations and amendments adopted by the Group (continued)

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of AASB 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

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 9: *Prepayment Features with Negative Compensation*
- AASB 119: *Plan Amendment, Curtailment or Settlement*
- AASB 128: *Long-term interests in associates and joint ventures*
- Annual Improvements 2015-2017 Cycle and Other Amendments

Changes to presentation – classifications

The Group has revised its policy on presentation of cost of sales to reclassify \$1,829,783 engineering development expenditure from Research and development expenses to Cost of sales, which can now be directly assigned to commercial NRE contracts. Management believes that this will provide more relevant information to stakeholders as it more fairly reflects the split in engineering costs between revenue generating development on OEM programs, and ongoing development of its core DMS technology. Program Related comparatives have not been restated because the information is not retrospectively available.

The Group re-assessed its accounting policy for treasury shares and on 1 July 2019 elected to reclassify treasury shares to the employee share reserve once they are expired/exercised. This has been presented in the Statement of Changes in Equity under Reclassification of treasury shares. The group believes that this reclassification is more relevant to the ongoing nature of these shares.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3 Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Segments	For the half year ended 31 December 2019				
	Automotive	Fleet & Off-Road	Aviation	Scientific Advances	Total
	A\$	A\$	A\$	A\$	A\$
Type of goods or service					
Hardware and Installations	716,987	6,320,902	-	-	7,037,889
Non-recurring Engineering	1,998,382	-	-	-	1,998,382
Paid Research	-	557,816	152,941	10,513	721,270
Driver Monitoring	-	4,065,045	-	-	4,065,045
Licensing	-	1,921,993	86,908	-	2,008,901
Total revenue from contracts with customers	2,715,369	12,865,756	239,849	10,513	15,831,487
Geographical markets					
Australia	-	4,587,808	107,500	10,513	4,705,821
North America	232,879	5,100,254	132,349	-	5,465,482
Asia-Pacific (excluding Australia)	195,821	1,079,202	-	-	1,275,023
Europe	2,286,669	445,584	-	-	2,732,253
Other	-	1,652,908	-	-	1,652,908
Total revenue from contracts with customers	2,715,369	12,865,756	239,849	10,513	15,831,487
Timing of revenue recognition					
Goods transferred at a point in time	716,987	6,553,389	239,849	10,513	7,520,738
Services transferred over time	1,998,382	6,312,367	-	-	8,310,749
Total revenue from contracts with customers	2,715,369	12,865,756	239,849	10,513	15,831,487

3 Revenue from contracts with customers (continued)

Segments	For the half year ended 31 December 2018				
	Automotive	Fleet & Off-Road	Aviation	Scientific Advances	Total
	A\$	A\$	A\$	A\$	A\$
Type of goods or service					
Hardware and Installations	1,303,507	1,809,663	83,633	-	3,196,803
Non-recurring Engineering	3,358,138	-	-	-	3,358,138
Paid Research	-	407,633	37,000	460,000	904,633
Driver Monitoring	-	2,430,364	-	-	2,430,364
Licensing	-	4,154,031	-	-	4,154,031
Total revenue from contracts with customers	4,661,645	8,801,691	120,633	460,000	14,043,969
Geographical markets					
Australia	-	4,969,330	37,000	460,000	5,466,330
North America	3,158,338	3,198,394	83,633	-	6,440,365
Asia-Pacific (excluding Australia)	281,151	441,554	-	-	722,705
Europe	1,222,156	101,999	-	-	1,324,155
Other	-	90,414	-	-	90,414
Total revenue from contracts with customers	4,661,645	8,801,691	120,633	460,000	14,043,969
Timing of revenue recognition					
Goods transferred at a point in time	1,246,722	1,826,023	120,633	460,000	3,653,378
Services transferred over time	3,414,923	6,975,668	-	-	10,390,591
Total revenue from contracts with customers	4,661,645	8,801,691	120,633	460,000	14,043,969

The Group recognised impairment losses on receivables and contract assets arising from contracts with customers, included under Administrative expenses in the statement of profit or loss, amounting to \$240,536 for the half year ended 31 December 2019 (H1FY19: \$178,612).

4 Segment information

The following tables present revenue and gross profit information for the Group's operating segments for the half year ended 31 December 2019 and 2018, respectively:

	Automotive	Fleet & Off-Road	Aviation	Scientific Advances	Total
	A\$	A\$	A\$	A\$	A\$
FOR THE HALF YEAR ENDED 31 DECEMBER 2019					
Segment revenue	2,715,369	12,865,756	239,849	10,513	15,831,487
Segment gross profit	1,103,110	4,285,134	239,037	10,513	5,637,794

	Automotive	Fleet & Off-Road	Aviation	Scientific Advances	Total
	A\$	A\$	A\$	A\$	A\$
FOR THE HALF YEAR ENDED 31 DECEMBER 2018					
Segment revenue	4,661,645	8,801,691	120,633	460,000	14,043,969
Segment gross profit	4,642,869	3,641,488	119,754	456,918	8,861,029

5 Research and development expenses

The total research and development expenses in H1FY20 was \$15,743,175 (H1FY19: \$20,702,197).

Research and development expense relates to ongoing investment in the group's core technology.

6 Property, plant and equipment

Acquisitions and disposals

During the half year ended 31 December 2019, the Group acquired assets with a cost of \$681,284 (H1FY19: \$249,100).

These additions include work in progress in relation to construction of a new driving simulator, which commenced in October 2019. This project is expected to be completed in June 2020 and the carrying amount of work in progress at 31 December 2019 was \$152,288 (30 June 2019: \$Nil).

No assets were disposed by the Group during the half year ended 31 December 2019.

7 Inventories

During the half year ended 31 December 2019, the Group reversed \$20,925 net provision of obsolescence that had been recognised in FY19. This adjustment is reflected through Cost of Sales in the Profit & Loss. This adjustment reflects an increase in the average selling price for the Guardian Generation 2 hardware.

	Consolidated entity	
	31 DEC 2019	30 JUN 2019
	A\$	A\$
Work in progress (at cost)	216,450	304,455
Finished goods (at lower of cost and net realisable value)	5,758,116	7,907,774
Total inventories at the lower of cost and net realisable value	5,974,566	8,212,229

8 Financial assets and financial liabilities

Set out below, is an overview of financial assets, other than cash and short-term deposits, held by the Group as at 31 December 2019 and 30 June 2019:

	31 DEC 2019	30 JUN 2019
	A\$	A\$
Debt instruments at amortised cost		
Trade and other receivables	13,027,358	15,670,345
Current Financial Assets	511,616	9,560,716
Total	13,538,974	25,231,061
Total current	13,538,974	25,231,061

8 Financial assets and financial liabilities (continued)

Set out below is an overview of financial liabilities held by the Group as at 31 December 2019 and 30 June 2019:

	<u>31 DEC 2019</u>	<u>30 JUN 2019</u>
	A\$	A\$
Financial liabilities at amortised cost		
Trade and other payables	4,787,366	3,620,382
Financial guarantee contracts	673,665	903,087
Non-current interest bearing loans and borrowings		
Lease liabilities	6,357,714	6,810,549
Current interest bearing loans and borrowings		
Lease liabilities	891,953	1,114,223
Total	<u>12,710,698</u>	<u>12,448,241</u>
Total current	<u>6,352,984</u>	<u>5,637,692</u>
Total non-current	<u>6,357,714</u>	<u>6,810,549</u>

9 Cash and cash equivalents

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of the following:

	<u>31 DEC 2019</u>	<u>30 JUN 2019</u>
	A\$	A\$
Cash at bank and in hand	47,349,850	54,808,736
Total cash and cash equivalents	<u>47,349,850</u>	<u>54,808,736</u>

10 Intangible assets

During the half year ended 31 December 2019, the Group purchased intangibles totalling \$233,042 (H1FY19: \$262,166). 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 (\$742,905), relating to amortisation of capitalised development costs.

11 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.

12 Share-based payments

LTI 2019 - Performance Rights or share options offers - Executive and key staff

From 1 July 2015, senior staff and other key staff are offered long term incentive (LTI) 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 any performance, market and vesting conditions are met. These conditions typically include a performance condition requiring the staff member to achieve a minimum "meets expectations" rating and some rights have included a market condition in the form of a minimum Target Share Price (TSP). The vesting period ranges from 9 months to 5 years from the end of the relevant financial year or grant date. 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.

12 Share-based payments (continued)

Options were issued to a key staff member in October 2016, the options were valued using a binomial model using historic volatility as a proxy for implied volatility, long term UK government bond prices for the risk free rate and AIM share price information. These options expire after 10 years. At 31 December the weighted average remaining life for the outstanding share options was 9.06 years (2018: 9.36 years) and the exercise price for these outstanding options was £0.0561.

In October 2019 the Company awarded a total of 28,995,070 performance rights in respect of ordinary shares to Executive and key staff to be issued at nil cost. The rights were valued at the spot rate of the shares at grant date. The rights vest annually over 3 years in equal tranches with the first vesting date being 1 July 2020 and require the employee to remain continuously employed by the Company until each relevant vesting date. If an employee leaves before the rights vest and the service condition is therefore not met the rights lapse.

In some cases, for 'good leavers', determined on a discretionary basis by management, options are prorated for service in the current period and that portion are vested on termination, the remaining rights are cancelled.

There is no cash settlement of the rights.

STI 2019 - Ordinary Shares

In October 2019 the Company issued a total of 3,250,877 ordinary shares to staff and non-executive directors in lieu of cash remuneration. The shares were valued at grant date at £0.0441. The number of shares issued to each employee was calculated with reference to the cash equivalent the individual would have received based on their performance, net of superannuation and tax payable on the gross bonus.

2019 CEO Call Options Scheme

In September 2019 the Company awarded rights to acquire 12,000,000 Ordinary Shares as part of the Company's Call Option Scheme to the CEO. These rights will vest on 1 July 2022, providing the CEO remains continuously employed by the Company, and will be exercisable at any point within one year at a price of £0.0441 per Ordinary Share, being the average daily volume weighted average price (VWAP) over the 5 trading days to 27 September 2019. There is no cash settlement of the options and the options will expire if they are not exercised by 1 July 2023.

Taking into account the terms and conditions upon which the options were granted, and the assumptions outlined below, the weighted average fair value of the options at grant date is £0.0182. At 31 December the weighted average remaining life for the outstanding share options was 3.5 years (H1FY19: Nil).

2019 CEO LTI Performance Rights

In September 2019 the Company awarded 25,000,000 rights in respect of ordinary shares to the CEO to be issued at nil cost. The rights vest annually over 5 years in equal tranches with the first vesting date being 1 July 2020, with each issue conditional on the satisfaction of key conditions including TSP performance and require the employee to remain continuously employed by the Company until each relevant vesting date. For the purposes of determining whether the TSP has been achieved at a particular vesting date the share price will be determined by the 30-day VWAP immediately prior to the particular vesting date. If the employee leaves before the rights vest and the service condition is therefore not met the rights lapse.

12 Share-based payments (continued)

Achievement of the following TSP performance is required for each tranche to vest:

Tranche 1: £0.061
Tranche 2: £0.076
Tranche 3: £0.095
Tranche 4: £0.119
Tranche 5: £0.149

If the TSP has been achieved at the particular vesting date, then 100% of the performance rights allocated to that tranche will vest.

Where at least 90% of the TSP has been achieved at the particular vesting date the corresponding Performance Rights equal to the proportion of the TSP achieved for that year will vest.

Where less than 90% of the TSP is achieved 0% of the rights will vest. However, the performance rights issued under the tranche will have the opportunity to achieve 50% vesting two years later by way of re-test. The re-test feature is such that 50% will vest if the original TSP is achieved at the following two consecutive LTI vesting dates. The remaining 50% will lapse.

In some cases, for 'good leavers', the Board, in its absolute discretion, may partially allow some of the rights to acquire Shares to be exercised or allocate cash on a pro rata basis, having regard to the Group performance to that point and the likelihood that the Group will achieve the KPIs by the Performance Date. Any remaining rights are cancelled.

Taking into account the terms and conditions upon which the options were granted, and the assumptions outlined below, the following fair values have been calculated:

Tranche 1: £0.0190
Tranche 2: £0.0193
Tranche 3: £0.0193
Tranche 4: £0.0192
Tranche 5: £0.0192

At 31 December the weighted average remaining life for the outstanding share options was 9.73 years (H1FY19: Nil).

The fair values at grant date are estimated using a binomial pricing model using historic volatility as a proxy for implied volatility, long term UK government bond prices for the risk free rate and share price information from DataStream. The following assumptions have been used in calculating the fair values in relation to offers made to the CEO:

Dividend yield: 0%
Volatility: 63%
Post-vesting Withdrawal Rate (options only): 0%
Risk-free interest rate:-
1 Year: 0.56%
2 Year: 0.44%
3 Year: 0.39%
4 Year: 0.36%
5 Year: 0.35%
6 Year: 0.36%
7 Year: 0.37%

For the half year ended 31 December 2019, the Company has recognised \$1,943,350 of share-based payment expense in the statement of profit or loss (H1FY19: \$8,636,597).

13 Commitments

At 31 December 2019, the Group had capital commitments of \$27,781,500 (H1FY19: Nil) relating to the manufacturing contract for the Group's Guardian 2.1 product for the period January 2020 to March 2021.

14 Related party disclosures

The following table provides the total amount of transactions that have been entered into with related parties during the half year ended 31 December 2019 and 2018:

		Balance 1-Jul	Granted as Remuneration	Acquired or sold for cash	Balance 31-Dec
		A\$	A\$	A\$	A\$
Key management personnel of the Group:					
Directors' securities	2019	5,030,894	1,222,478	233,333	6,386,705
Directors' securities	2018	10,232,509	533,442	1,784,615	12,550,566

15 Events after the reporting period

There have been no significant events occurring after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Directors' Declaration

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

In the opinion of the Directors:

- (a) The financial statements and notes of Seeing Machines Limited for the half-year ended 31 December 2019 present fairly, in all material aspects, the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date, in accordance with the Australian Accounting Standards.
- (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the board



Paul McGlone
Executive Director & Chief Executive Officer
Canberra
10 March 2020

To the members of Seeing Machines Limited

Report on the Half-year Financial Report

We have reviewed the accompanying 31 December 2019 half-year financial report of Seeing Machines Limited, which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the accompanying financial report is not presented fairly, in all material respects, in accordance with AASB 134 *Interim Financial Reporting*. As the auditor of Seeing Machines Limited, ASRE 2410 also requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of Seeing Machines Limited does not present fairly, in all material respects, the company's financial position as at 31 December 2019 and its financial performance and its cash flows for the half-year ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.



Ernst & Young
Sydney
10 March 2020