



Scout Security Limited

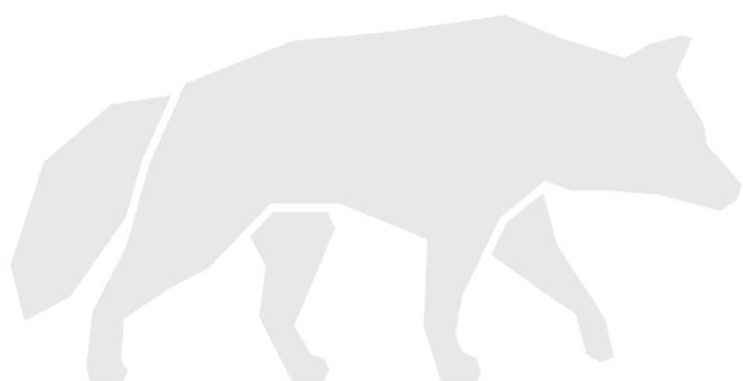
ABN 13 615 321 189

and its controlled entities

APPENDIX 4D

Interim Financial Report

31 December 2021



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SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

APPENDIX 4D

Interim Financial Report

31 December 2021

Corporate directory

Current Directors

Mr Martin Pretty	<i>Non-executive Chairman</i>
Mr Daniel Roberts	<i>Executive Director</i>
Mr David Shapiro	<i>Non-executive Director</i>
Mr Anthony Brown	<i>Non-executive Director</i>
Mr Solomon Majteles	<i>Non-executive Director</i>

Company Secretary

Mr Stuart Usher

Registered Office - Australia

Street: Level 1,
247 Oxford Street
LEEDERVILLE WA 6007

Postal: PO Box 52
WEST PERTH WA 6872

Telephone: +61 (0)8 6141 3500

Facsimile: +61 (0)8 6141 3599

Email: investors@scoutalarm.com

Website: www.scoutalarm.com

Registered Office – United States

210 North Racine Avenue
Unit 3S, Chicago, IL 60607
United States of America

Auditors

Hall Chadwick WA Audit Pty Ltd
283 Rokeby Road
SUBIACO WA 6008
Telephone: +61 (0)8 9426 0666

Solicitors

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

Share Registry

Advanced Share Registry Limited
Street + Postal: 110 Stirling Highway
NEDLANDS WA 6009

Telephone: 1300 113 258 (within Australia)
+61 (0)8 9389 8033 (International)

Facsimile: +61 (0)8 6370 4203

Email: admin@advancedshare.com.au

Website: www.advancedshare.com.au

Securities Exchange

Australian Securities Exchange
Level 40, Central Park, 152-158 St Georges Terrace
Perth WA 6000

Telephone: 131 ASX (131 279) (within Australia)
Telephone: +61 (0)2 9338 0000

Facsimile: +61 (0)2 9227 0885

Website: www.asx.com.au

ASX Code SCT

Bankers

Westpac Banking Corporation
130 Rokeby Road
Subiaco WA 6008

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Results for Announcement to the Market

for the half-year Ended 31 December 2021

1 REPORTING PERIOD (item 1)			
■ Report for the period ended:	31 December 2021		
■ Previous corresponding period is half-year ended:	31 December 2020		
2 RESULTS FOR ANNOUNCEMENT TO THE MARKET	Movement	Percentage %	Amount \$
■ Revenues from ordinary activities (item 2.1)	Increase	174.20 to	2,416,947
■ Loss from ordinary activities after tax attributable to members (item 2.2)	Decrease in Losses	(13.11) to	(1,918,397)
■ Loss from after tax attributable to members (item 2.3)	Decrease in Losses	(13.11) to	(1,918,397)
a. Dividends (items 2.4 and 5)		Amount per Security ¢	Franked amount per security %
■ Interim dividend		nil	n/a
■ Final dividend		nil	n/a
■ Record date for determining entitlements to the dividend (item 2.5)	n/a		
b. Brief explanation of any of the figures reported above necessary to enable the figures to be understood (item 2.6):			
1. Revenue represents interest earned and service revenue.			
3 DIVIDENDS (item 6) AND RETURNS TO SHAREHOLDERS INCLUDING DISTRIBUTIONS AND BUY BACKS			
Nil.			
a. Details of dividend or distribution reinvestment plans in operation are described below (item 6):			
Not applicable			
4 RATIOS		Current period	Previous corresponding period
a. Financial Information relating to 4b:		\$	\$
Earnings for the period attributable to owners of the parent		(1,918,397)	(2,207,818)
Net assets/(liabilities)		(1,652,593)	(59,999)
Less: Intangible assets		-	-
Net tangible assets/(liabilities)		(1,652,593)	(59,999)
		No.	No.
Fully paid ordinary shares		150,854,172	145,672,677
b. Net tangible assets/ (liability) backing per share (cents) (item 3):		(1.095)	(0.041)

Results for Announcement to the Market

for the half-year Ended 31 December 2021

5 DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD: (item 4)

a. Control gained over entities

- Name of entities (item 4.1)
- Date(s) of gain of control (item 4.2)

b. Loss of control of entities

- Name of entities (item 4.1) Nil
- Date(s) of loss of control (item 4.2) n/a

c. Contribution to consolidated loss from ordinary activities after tax by the controlled entities to the date(s) in the current period when control was gained / lost (item 4.3). n/a

d. Loss from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period (item 4.3) n/a

6 DETAILS OF ASSOCIATES AND JOINT VENTURES: (item 7)

- Name of entities (item 7) Nil
- Percentage holding in each of these entities (item 7) N/A

- Aggregate share of profits (losses) of these entities (item 7)

	Current period	Previous corresponding period
	N/A	N/A

7 The financial information provided in the Appendix 4D is based on the interim final report (attached), which has been prepared in accordance with Australian Accounting Standards.

8 The report is based on accounts which are have been reviewed by the Company's independent auditor (item 9).

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Directors' report

Your directors present their report on the consolidated entity, consisting of Scout Security Limited (**Scout Security or the Company**) and its controlled entities (collectively **the Group**), for the half-year ended 31 December 2021.

1. Directors

The names of Directors in office at any time during or since the end of the half-year are:

- Mr Martin Pretty Non-executive Chairman (*appointed Non-executive director on 27 July 2020, appointed Non-executive Chairman on 23 August 2021*)
- Mr Daniel Roberts Executive Director
- Mr David Shapiro Non-executive Director
- Mr Anthony Brown Non-executive Director
- Mr Solomon Majteles Non-executive Director

Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

2. Operating and financial review

2.1. Operations review

During H1 FY22, Scout:

- Earned revenues of \$2,416,947 (up 174% from H1 FY21 \$881,447)
- Continued the ramp up of the Windstream roll out ,
 - Achieved 15% attach rate on new customers (50% above the modelled rate)
 - Improved its margin structure, with hardware gross margins exceeding original estimates of 10% and Recurring Monthly Revenue (RMR) of A\$8.00 per customer on new customers added significantly exceeding prior estimates of A\$4.70 per customer
- Continued marketing activities in Peru alongside strategic partner Prosegur, while also preparing for the launch of Scout-powered products in a second Spanish-speaking market
- Boosted its sales reach with the execution of a new partnership agreement with Hyperion Partners LLC

Financial and Operational Performance

During H1 FY22, the Scout team continued the ramp up of the roll out with Windstream, leading to revenue of \$2,416,947 (up from H1 FY21 \$881,447) and generating cash receipts of \$1,364,442. Orders, as announced on January 31, 2022 in the December 2021 4C, drove annualized recurring revenue to approximately \$80,000, which is expected to continue to grow as the Company's operations expand.

EBITDA in the period was a loss of \$1,438,541 (H1 FY21 loss \$989,105). The main drivers of expenditure growth against the same period last financial year were additional consulting and professional fees totaling approximately \$280,000 which related to outsourced engineering for development on our web application, and fees resulting from the CEO recruitment search, and additional employee expenses totaling approximately \$200,000 associated with several new employees across sales, program management, and customer service.

As at 31 December 2021, the Company had a cash balance of \$129,450. As announced on 23 December 2021, the Company conducted a \$650k capital raise, which was enthusiastically supported by the Company's Directors at a substantial (3x) premium to the Company's share price at the time. Shareholder approval for the capital raise was granted at a General Meeting held on 18 February 2022 and the Company will shortly receive the full funds of the new convertible note and Director shares. As a result, the Company is now well-resourced to scale up in 2022 with the proceeds from capital raising, a strengthened management team and line of sight on cash flow break-even as units from binding orders received are sold and activated.

Strategy Delivery

During the half year period, the Scout team commenced a partnership with Windstream, its first US telecommunications partner, targeting approximately 10% penetration of their 1.4 million residential customer base in the medium term (18-24 months). However, in company forecasts we are modeling a more conservative value of 24 thousand customers by end of CY22 which should generate sufficient RMR to reach cash flow break even.

Directors' report

The Company's Windstream launch has exceeded expectations for performance to date, achieving a 15% attach rate on new customers (who have been the focus of sales efforts to date), which was 50% above the modelled rate.

The Windstream partnership has achieved consistent month-on-month recurring revenue growth beyond the reporting period through to February 2022, solidifying the credibility of the Company's white label model and demonstrating the potential of each new partner added.

Hardware gross margins have also exceeded original estimates of 10% and Recurring Monthly Revenue (RMR) of A\$8.00 per customer have significantly exceeded the Company's A\$4.70 per customer estimates. While pushing scaling efforts domestically, the Company also continued preparations to launch in new international markets.

Scout was involved in ongoing marketing activities in Peru, alongside its partner Prosegur, while also preparing for the launch of Qido in a second market. The commercial partnership with Prosegur builds on Scout's existing relationship with the European security leader as a strategic investor in the Company. Work to roll out into the second country is substantially completed as Scout anticipates an announcement from Prosegur on launch timing.

The Company's sales reach received a boost with the execution of a new partnership agreement with Hyperion Partners LLC, a master agent for T-Mobile and other carriers in the US. This new partnership will see Hyperion work to accelerate the placement of Scout's app-based DIY security products into various telecommunications channels in the USA. Penetrating the cellular carrier market is a strategic initiative in 2022 to supplement the growing momentum of Scout's internet service provider pipeline.

Scout has reached agreement with its key camera supplier granting the Company exclusive distribution rights of the camera system in the US, while reducing the minimum order quantity required. Further, the agreement locked the cost from any price increases by granting the supplier, depending on volume, between \$0.14 and \$0.56 per camera sold. Whilst this is not expected to have a material impact on the financial performance of the Company, it does provide operational flexibility and further validates Scouts credibility in the market.

Outlook

The Company has ambitious goals for FY22, and the market can expect announcements on the following:

- The progress of sales by Scout's US telecommunications partners.
- Confirmation of the second Spanish-speaking country into which the Company will launch with Prosegur.
- Progress working through its robust pipeline of potential white label partners.

While the macro environment continues to flex under the ongoing challenges thrown up by COVID-19, the market for app-based security systems remains robust, supporting the growth outlook for Scout.

With the appointment of a new CEO and the recent completion of the Capital Raisings and Facility Note extensions, the Company is well resourced to gain scale in 2022.

2.2. Financial Review

a. Operating results

For the half-year ended 31 December 2021 the Group delivered a loss before tax of \$1,918,397 (31 December 2020: \$2,207,818 loss), representing a reduction in losses.

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. Details of the Company's assessment in this regard can be found in Note 1.1.2 Statement of significant accounting policies: Going Concern on page 11.

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Directors' report

2.3. Events Subsequent to Reporting Date

The company has raised \$200,000 (AUD) subsequent to the year end via a placement from Directors at \$0.0875 per share, of which \$145,000 has been received and \$55,000 will be received over 12 months under a salary sacrifice arrangement.

The Company has secured a new convertible note facility to raise \$450,000 on similar terms to the existing convertible note facility in place and matures on 31 December 2023. As at the date of the report, \$145,000 has been received.

There are no other significant after balance date events that are not covered in this Directors' Report or within the financial statements at Note 16 Events subsequent to reporting date.

2.4 Future Developments, Prospects and Business Strategies

Likely developments, future prospects and business strategies of the operations of the Group and the expected results of those operations have not been included in this report as the Directors believe that the inclusion of such information would be likely to result in unreasonable prejudice to the Group.

3. Auditor's independence declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* (Cth) for the half-year ended 31 December 2021 has been received and can be found on page 6 of the interim financial report.

Signed in accordance with a resolution of directors made pursuant to s306(3) of the *Corporations Act 2001* (Cth).



DANIEL ROBERTS

Executive Director

Dated this Monday, 28 February 2022

HALL CHADWICK 

To the Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the review of the financial statements of Scout Security Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours Faithfully,

Hall Chadwick
HALL CHADWICK WA AUDIT PTY LTD
Chartered Accountants

Mark Delaurentis
MARK DELAURENTIS CA
Director

Dated at Perth this 28th day of February 2022

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Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2021

	Note	6 months to 31 Dec 2021 \$	6 months to 31 Dec 2020 \$
<i>Continuing operations</i>			
Revenue	3.1	2,416,947	881,447
Cost of sales		(1,559,103)	(171,246)
Gross profit		857,844	710,201
Other income	4	2,028	196,286
Consulting and professional fees		(709,767)	(434,466)
Employee expenses	4	(971,055)	(765,171)
Fair value movement in embedded derivative		63,526	(321,384)
Rental costs		(62,287)	(71,149)
Share-based payments	18	(3,688)	(418,350)
Information technology costs		(150,157)	(124,437)
Finance costs	4	(539,694)	(478,979)
Sales and marketing		(57,134)	(16,891)
Shipping and postage		(42,587)	(4,090)
Travel and entertainment		(38,256)	(682)
Inventory written off		-	(204,477)
Other expenses		(267,170)	(274,229)
Loss before tax		(1,918,397)	(2,207,818)
Income tax expense		-	-
Net loss for the half-year		(1,918,397)	(2,207,818)
<i>Other comprehensive income, net of income tax</i>			
■ Items that may be reclassified subsequently to profit or loss			
□ Foreign currency movement		(41,930)	106,486
Other comprehensive income for the half-year, net of tax		(41,930)	106,486
Total comprehensive income attributable to members of the parent entity		(1,960,327)	(2,101,332)
<i>Earnings per share:</i>			
Basic and diluted loss per share (cents per share)	5	(1.27)	(1.80)

The condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

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APPENDIX 4DInterim Financial Report
31 December 2021**SCOUT SECURITY LIMITED**

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Condensed consolidated statement of financial position

as at 31 December 2021

	Note	31 Dec 2021 \$	30 June 2021 \$
<i>Current assets</i>			
Cash and cash equivalents	6	129,450	1,902,575
Trade and other receivables	7	180,215	55,353
Inventories	8	721,780	493,882
Other current assets	9	241,225	204,747
Total current assets		1,272,670	2,656,557
<i>Non-current assets</i>			
Financial assets	10	770,378	934,184
Total non-current assets		770,378	934,184
Total assets		2,043,048	3,590,741
<i>Current liabilities</i>			
Trade and other payables	11	1,276,503	741,897
Unearned revenues	12	1,106,638	1,947,218
Total current liabilities		2,383,141	2,689,115
<i>Non-current liabilities</i>			
Borrowings	13	1,050,000	712,500
Financial liabilities	14	262,500	249,125
Total non-current liabilities		1,312,500	961,625
Total liabilities		3,695,641	3,650,740
Net assets/(liabilities)		(1,652,593)	(59,999)
<i>Equity</i>			
Issued capital	15.1	15,855,341	15,413,387
Reserves		5,242,965	5,359,116
Accumulated losses		(22,750,899)	(20,832,502)
Total equity		(1,652,593)	(59,999)

The condensed consolidated statement of financial position is to be read in conjunction with the accompanying notes.

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Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2021

	Note	Contributed equity	Foreign Currency Translation Reserve	Share-based Payments Reserve	Accumulated Losses	Total equity
		\$	\$	\$	\$	\$
<i>Balance at 1 July 2020</i>		12,179,075	46,166	3,249,816	(16,888,706)	(1,413,649)
Loss for the half-year attributable owners of the parent		-	-	-	(2,207,818)	(2,207,818)
Other comprehensive income for the half-year attributable owners of the parent		-	106,486	-	-	106,486
Total comprehensive income for the half-year attributable owners of the parent		-	106,486	-	(2,207,818)	(2,101,332)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the half-year (net of costs)	15.1	2,958,578	-	-	-	2,958,578
Options granted during the half-year	15.2	-	-	1,339,024	-	1,339,024
Performance shares	15.3	-	-	418,350	-	418,350
<i>Balance at 31 December 2020</i>		15,137,653	152,652	5,007,190	(19,096,524)	1,200,971
<i>Balance at 1 July 2021</i>		15,413,387	150,096	5,209,020	(20,832,502)	(59,999)
Loss for the half-year attributable owners of the parent		-	-	-	(1,918,397)	(1,918,397)
Other comprehensive income for the half-year attributable owners of the parent		-	(41,930)	-	-	(41,930)
Total comprehensive income for the half-year attributable owners of the parent		-	(41,930)	-	(1,918,397)	(1,960,327)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the half-year (net of costs)	15.1	101,224	-	-	-	101,224
Options granted during the half-year	15.2	-	-	262,821	-	262,821
Employees Performance rights	15.3	-	-	3,688	-	3,688
Conversion of performance rights	15.1	340,730	-	(340,730)	-	-
<i>Balance at 31 December 2021</i>		15,855,341	108,166	5,134,799	(22,750,899)	(1,652,593)

The condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

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APPENDIX 4DInterim Financial Report
31 December 2021**SCOUT SECURITY LIMITED**

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2021

Note	6 months to 31 Dec 2021 \$	6 months to 31 Dec 2020 \$
<i>Cash flows from operating activities</i>		
Receipts from customers	1,364,442	1,206,970
Interest received	2,028	87
Interest paid	(2,680)	(19,466)
Payments to suppliers and employees	(3,590,930)	(2,466,923)
Net cash used in operating activities	(2,227,140)	(1,279,332)
<i>Cash flows from investing activities</i>		
Net cash used in investing activities	-	-
<i>Cash flows from financing activities</i>		
Proceeds from issue of shares	-	3,000,000
Payments for capital raising costs	-	(229,080)
Proceeds from convertible debt securities	425,000	731,250
Net cash provided by financing activities	425,000	3,502,170
Net increase/(decrease) in cash held	(1,802,140)	2,222,838
Cash and cash equivalents at the beginning of the half-year	1,902,575	62,310
Change in foreign currency held	29,015	(6,133)
Cash and cash equivalents at the end of the half-year	129,450	2,279,015

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

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Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 1. Statement of significant accounting policies

These are the condensed consolidated financial statements and notes of Scout Security Limited (**Scout Security or the Company**) and controlled entities (collectively **the Group**). Scout Security is a company limited by shares, domiciled and incorporated in Australia.

The financial statements were authorised for issue on 28 February 2022 by the directors of the Company.

1.1. Basis of preparation

This interim financial report is intended to provide users with an update on the latest annual financial statements of Scout Security Limited and controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in combination with the annual financial statements of the Group for the year ended 30 June 2021, together with any public announcements made during the half-year.

1.1.1. Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

1.1.2. Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss for the half-year of \$1,918,397 (31 December 2020: \$2,207,818 loss) and a net operating cash out-flow of \$2,227,140 (31 December 2020: \$1,279,332 out-flow). As at 31 December 2021 the Group had a working capital deficiency of \$1,110,471 (30 June 2021: \$32,558 deficiency) which includes \$1,106,638 (30 June 2021: \$1,947,218) of unearned revenues.

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, the realisation of assets, settlement of liabilities through the normal course of business including the presumption that sufficient funds will be available to finance the operations of the Group for the following reasons:

- The Company has a \$2 million (AUD) convertible note facility with Institutional and Sophisticated investors of Gleneagle Securities (Aust) Pty Ltd and existing shareholders of the Group, of which \$1,162,500 has been drawn down as at 31 December 2021, with the remaining \$837,500 available for drawdown at the Company's discretion. The facility has been agreed to be extended by the majority of noteholders to 31 December 2023. Subsequent to year end shareholder approval was obtained for Directors to participate which raised a further \$37,500;
- The company has raised \$200,000 (AUD) subsequent to the year end via a placement from Directors at \$0.0875 per share, of which \$145,000 has been received and \$55,000 will be received over 12 months under a salary sacrifice arrangement;
- The Company has secured a new convertible note facility to raise \$450,000 on similar terms to the existing convertible note facility in place and matures on 31 December 2023. As at the date of the report, \$145,000 has been received;
- The continued growth in sales of new products and customers within the year that should provide additional hardware and recurring revenue streams.

The directors plan to continue the Group's operations on the basis disclosed above and believe that there will be sufficient funds for the Group to meet its obligations and liabilities for at least 12 months from the date of this report. In the event that the Group is unable to generate sufficient revenue in the normal course of business or secure additional funds through new share issues or borrowings, the Group may need to reduce costs or negotiate extended terms with key creditors in order to meet working capital requirements.

Should the Group be unable to successfully execute one or more of the aforementioned matters, there exists a material uncertainty that may cause significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern and meet its debts as and when they become due and payable.

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Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 1. Statement of significant accounting policies

1.1.3. Use of estimates and judgments

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The judgements, estimates and assumptions applied in the condensed financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2021.

1.2. New and Amended Standards Adopted by the Group

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year. New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group are:

- *AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business*
- *AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material*
- *AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- *AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*
- *AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*
- *AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions*

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Note 2. Company details**The registered office of the Company is:**

Street: Level 1
247 Oxford Street
Leederville WA 6007
Australia

Postal: PO Box 52
West Perth WA 6872

Registered Office – United States

Postal: 210 North Racine Avenue
Unit 3S, Chicago, IL 60607
United States of America

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 3. Revenue and other income**3.1. Revenue**

Revenue

Product sales

Subscription revenue

Development fees

Licensing and support fees

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	\$	\$
	2,001,259	162,075
	250,463	278,980
	119,014	426,555
	46,211	13,837
	2,416,947	881,447

Note 4. Loss before income tax

The following significant revenue and expense items are relevant in explaining the financial performance:

4.1. Other Income

- Interest income
- Government loans forgiven
- Other

4.2. Finance costs:

- Bank interest
- Interest – Convertible note
- Interest – Unwinding of transaction costs

4.3. Employment costs:

- Directors fees
- Wages and salaries

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	\$	\$
	25	87
	-	196,199
	2,003	-
	2,028	196,286
	2,680	3,458
	7,262	16,008
	529,752	459,513
	539,694	478,979
	60,321	70,805
	910,734	694,366
	971,055	765,171

Note 5. Earnings per share (EPS)**5.1. Reconciliation of earnings to profit or loss**

Loss for the half-year

Loss used in the calculation of basic and diluted EPS

	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	\$	\$
	(1,918,397)	(2,207,818)
	(1,918,397)	(2,207,818)

APPENDIX 4DInterim Financial Report
31 December 2021**SCOUT SECURITY LIMITED**

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 5 Earnings per share (EPS) (continued)**5.2. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS**

6 months to 31 Dec 2021	6 months to 31 Dec 2020
No.	No.
150,542,716	122,704,931

5.3. Earnings per share

Note	6 months to 31 Dec 2021	6 months to 31 Dec 2020
	¢	¢
5.4	(1.27)	(1.80)

Basic EPS (cents per share)

5.4. As at 31 December 2021 the Group has 26,619,185 unissued shares under options (31 December 2020: 14,833,468). The Group does not report diluted earnings per share on losses generated by the Group.

Note 6. Cash and cash equivalents**6.1. Current**

Cash at bank

31 Dec 2021	30 June 2021
	\$
129,450	1,902,575
129,450	1,902,575

Note 7. Trade and other receivables**7.1. Current**

Trade receivables

31 Dec 2021	30 June 2021
	\$
180,215	55,353
180,215	55,353

Note 8. Inventories**8.1. Current**

Finished goods

Components

31 Dec 2021	30 June 2021
	\$
482,493	493,882
239,287	-
721,780	493,882

Note 9. Other assets**9.1. Current**

Deposits

Other current assets

31 Dec 2021	30 June 2021
	\$
215,510	180,370
25,715	24,377
241,225	204,747

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Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 10. Financial assets**10.1. Non-current****Convertible notes – transaction costs**

Facilities, broker, T1 and T2 investors Options

Fees

Convertible note – T1 Embedded Derivative at initial recognition

Convertible note – T2 Embedded Derivative at initial recognition

Unwound transaction costs

Note	31 Dec 2021	30 June 2021
		\$
10.2		
	1,482,894	1,220,073
	70,000	70,000
	568,190	568,190
	103,125	-
	(1,453,831)	(924,079)
	770,378	934,184

10.2. The transaction costs were incurred in relation to the raising of funds under the convertible note facility (note 13.1). These costs are required to be offset against the convertible note liability and amortised over the term of the convertible note and are treated as finance costs in profit or loss.

Note 11. Trade and other payables**11.1. Current***Unsecured*

Trade payables

Accruals and other payables

	31 Dec 2021	30 June 2021
		\$
	1,004,623	542,120
	271,880	199,777
	1,276,503	741,897

Note 12. Unearned revenues**12.1. Current***Unsecured*

Unearned revenues

	31 Dec 2021	30 June 2021
		\$
	1,106,638	1,947,218
	1,106,638	1,947,218

Note 13. Borrowings**a. Current**

Convertible notes – face value

Note	31 Dec 2021	30 June 2021
	\$	\$
13.1	1,050,000	712,500
	1,050,000	712,500

13.1. On 16 July 2020, the Company has entered into a Convertible Note Deed (“Note”) with clients of Gleneagle Securities (Aust) Pty Limited (“Gleneagle”) and existing shareholders of the Company, to raise up to \$2 million. The investors in the Note include institutional and sophisticated investors. The key features of the Note are summarised below:

- **Term:** The term of the Note is 2 years.
- **Conversion:** Each Note may be converted into one fully paid ordinary share in the capital of the Company at the Conversion Price (below).

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Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 13 Borrowings (continued)

- **Conversion Price:** The conversion price of the Note will be the lower of:
 - 7c (which is a 40% premium to Scout's last traded price of 5c) and;
 - a 20% discount to any future equity issuance by the Company, subject to a floor price of 3c.
- **Variation to Conversion Price:** In the event the Company undertakes a bonus issue, rights issue or capital reorganization (including consolidation, subdivision, reduction or return), the conversion price (including the floor price) will be varied to the extent applicable and subject to the ASX Listing Rules to place investors in substantially the same position as they would have been had no such event occurred.
- **Facility Options:** In consideration for participation in the Note, Investors will be paid a Facility Fee in the form of 2,980,276 Options (issued proportionate to their individual investment).
- **Initial Installment:** Scout will draw \$750,000 in an Initial Installment at completion:
 - In consideration for participation in the Initial Installment, Investors will be issued a total of 8,035,715 Options (proportionate to their investment in the Initial Installment), Shareholders approved the issue at the Annual General Meeting held on 23 December 2020.
 - The Investors will have the right to convert the Initial Installment at any time.
- **Subsequent Installments:** Scout may draw, but is under no obligation to draw, Subsequent Installments totaling \$1.25 million. Until such time as Scout elects to draw a Subsequent Installment, Scout will be under no obligation to issue any securities beyond those issued to investors under the Initial Installment and will not be penalized in any way should it elect not to draw any Subsequent Installment.
 - It is a condition precedent to Scout electing to draw a Subsequent Installment that it has sufficient placement capacity at the time the drawing is made to issue the Subsequent Installment, including all shares and options to be issued in connection with the Subsequent Installment.
 - Subsequent Installments may be drawn monthly on 21 days' notice in installments of either \$250,000 or \$500,000, subject to Scout's share price being greater than 80% of the conversion price (determined based on the conversion price as at the date of the drawdown request and the proposed issue date of the Note, respectively).
 - In consideration for participation a Subsequent Installment, Investors will be issued a number of Options proportionate to their investment, calculated on the basis that 2 Options will be issued for the equivalent of 1 converted share, with the potential of issuing a total of 35,714,286 Options.
 - The Company may elect to redeem any Subsequent Installments ahead of any conversion rights.
- On 23 November 2021, 11,785,717 options were issued upon drawdown of \$412,500 of Convertible Notes.
- **Interest:** Interest of 5% p.a. is payable on drawn funds, accruing daily and payable quarterly.
- **Gleneagle Fee:** A further 2,384,221 Options will be issued to Gleneagle and supporting brokers as part of their fee.
- **Option terms:** All Options in the transaction will be exercisable at 7c and will expire on 16 July 2024.

13.2. \$75,000 of the \$750,000 were converted to shares during the half-year ended 31 December 2021.

Note 14. Financial liabilities**14.1. Non-current**

Convertible note – Embedded Derivative liability

Note	31 Dec 2021	30 June 2021
	\$	
14.2	262,500	249,125
	262,500	249,125

14.2. On 16 July 2020, the Company has entered into a Convertible Note Deed (Note 13). On application of AASB 9 Financial Instruments the Group accounts for convertible security financing on a fair value basis. As the terms of the conversion feature was not fixed for fixed number of shares, the conversion feature was deemed to be an embedded derivative liability. On initial recognition the fair value of the conversion rights granted was included in the transaction costs as detailed in note 10. The conversion rights will be recognised as equity on the extinguishment of the convertible note for shares if exercised, otherwise they will be recouped in profit or loss if not converted.

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 15. Equity

15.1. Issued capital	Note	6 months to	12 months to	6 months to	12 months to
		31 Dec 2021	30 June 2021	31 Dec 2021	30 June 2021
		No.	No.	\$	\$
Fully paid ordinary shares at no par value		150,854,172	145,672,677	15,855,341	15,413,387
15.1.1. Ordinary shares					
At the beginning of the period		145,672,677	119,211,053	15,413,387	12,179,075
Shares issued during the half-year					
■ Conversion of convertible debt securities @ \$0.07 per share		-	535,714	-	37,500
■ Embedded derivative component on conversion of convertible debt		-	-	26,224	67,109
■ Tranche 1 Placement @ \$0.135 per share		-	13,723,980	-	1,852,737
■ Share purchase plan @ \$0.135 per share		-	1,496,282	-	202,000
■ Tranche 2 Placement @ \$0.135 per share		-	8,498,241	-	1,147,263
■ Shortfall share purchase plan @ \$0.135		-	2,207,407	-	298,000
■ Conversion of employee performance rights		2,610,066	-	201,830	-
■ Conversion of performance shares		1,500,000	-	138,900	-
■ Conversion of convertible debt securities @ \$0.07 per share		1,071,429	-	75,000	-
Transaction costs relating to share issues					
■ Cash		-	-	-	(251,346)
■ Equity based	18	-	-	-	(118,951)
At reporting date		150,854,172	145,672,677	15,855,341	15,413,387

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 15 Equity (continued)

15.2. Options	Note	6 months to	12 months to	6 months to	12 months to
		31 Dec 2021	30 June 2021	31 Dec 2021	30 June 2021
		No.	No.	\$	\$
Options		26,619,185	14,833,468	4,851,661	4,588,840
At the beginning of the period		14,833,468	27,300,001	4,588,840	3,249,816
Options issued/(lapsed) during the year:					
■ Options (lapsed)		-	(27,300,001)	-	-
■ Issue of loan options		-	-	-	-
■ Issue of facility options	18	-	2,980,276	-	271,351
■ Issue of brokers options	18	-	2,384,221	-	217,080
■ Issue of advisor options	18	-	1,433,256	-	118,951
■ Issue of T1 investor options	18	-	8,035,715	-	731,642
■ Issue of facility options	18	11,785,717	-	262,821	-
At reporting date		26,619,185	14,833,468	4,851,661	4,588,840

15.3. Performance shares	Note	6 months to	12 months to	6 months to	12 months to
		31 Dec 2021	30 June 2021	31 Dec 2021	30 June 2021
		No.	No.	\$	\$
Performance shares		4,698,685	44,808,751	283,138	620,180
At the beginning of the period		44,808,751	36,000,000	620,180	-
Performance shares movement during the half-year:					
■ Issued		-	8,808,751	3,688	620,180
■ Fair value adjustments		-	-	-	-
■ Lapsed		(36,000,000)	-	-	-
■ Converted to ordinary shares		(4,110,066)	-	(340,730)	-
At reporting date		4,698,685	44,808,751	283,138	620,180

Note 16. Events subsequent to reporting date

The company has raised \$200,000 (AUD) subsequent to the year end via a placement from Directors at \$0.0875 per share, of which \$145,000 has been received and \$55,000 will be received over 12 months under a salary sacrifice arrangement.

The Company has secured a new convertible note facility to raise \$450,000 on similar terms to the existing convertible note facility in place and matures on 31 December 2023. As at the date of the report, \$145,000 has been received.

Other than noted above, there has been no additional matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future reporting periods.

Note 17. Contingent liabilities

There has been no change in contingent liabilities since the last reporting period.

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 18. Share-based payments**18.1. Share-based payments:**

- Recognised in profit and loss (expenses)
- Recognised in equity (transaction costs)
- Recognised in financial assets

Gross share-based payments

18.2. Share-based payment arrangements in effect during the half-year**18.2.1. Recognised in profit or loss****18.2.1.1. Performance Shares - Mr Daniel Roberts**

6,000,000 Performance Shares were approved at the Annual General Meeting held on 23 December 2020 to Mr Daniel Roberts which convert to ordinary fully paid shares on a one for one basis following the achievement of the performance milestones before the expiry date as detailed below and as detailed below.

Class of Performance Right	Performance Condition	Performance rights No.	Vesting conditions	Expiry Date	Performance Condition Satisfied
A	Upon the Company announcing to ASX the achievement of an annual profit before tax of US\$1.47 million in any of the financial year's FY 2021, FY 2022 and FY 2023.	1,500,000	Non-market vesting	30 June 2023	No
B	Upon the Company announcing to ASX the achievement of an annual profit before tax of US\$2 million in any of the financial year's FY 2021, FY 2022 and FY 2023.	1,500,000	Non-market vesting	30 June 2023	No
C	Upon the Company achieving a 30-day VWAP share price trading on ASX of \$0.10 to be tested in June of FY 2021, FY 2022 and FY 2023.	1,500,000	Market Vesting	30 June 2023	Yes ¹
D	Upon the Company achieving a 30-day VWAP share price trading on ASX of \$0.20 to be tested in June of FY 2021, FY 2022 and FY 2023.	1,500,000	Market Vesting	30 June 2023	No

1. On 12 July 2021, 1,500,000 Class C Performance Shares converted into 1,500,000 Ordinary Fully Paid Shares upon satisfaction and achievement of the Class C milestone

Note	6 months to 31 Dec 2021 \$	6 months to 31 Dec 2020 \$
18.2.1	3,688	418,350
18.2.2	-	118,951
18.2.3	262,821	1,220,073
	266,509	1,757,374

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Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 18 Share-based payments (continued)18.2.1.2. *Employee Performance Rights*

2,808,751 Employee Performance Rights were issued in accordance to General Meeting dated 12 July 2018 as follows:

Grant date	Performance Condition	Performance rights No.	Performance rights No. Vested @ 30 June 2021	Share price @ grant date \$	Performance rights No. Vested @ 31 Dec 2021	Amount \$
9 March 2021	Based on past vesting over 3-month period for prior and continued service.	364,182	364,182	0.110	-	-
12 April 2021	25% vest after 12 months of continuous service with balance vesting in equal instalments over next 36 months subject to continued service.	298,028	99,343	0.099	37,254	3,688
28 April 2021	1 Year Vesting period based on continued service from Feb 2020.	826,528	826,528	0.088	-	-
30 June 2021	1 Year Vesting period based on continued service from Feb 2020.	1,320,013	1,320,013	0.060	-	-
		2,808,751	2,610,066		37,254	3,688

18.2.2. **Recognised in equity**18.2.2.1. *Advisor Options*

On 21 December 2020, 1,433,256 Advisor Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below detailed below and in Note 18.3:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
1,433,256	31 December 2024	\$0.135	Immediately upon issue

18.2.3. **Recognised in financial assets**18.2.3.1. *Facility Options*

On 23 November 2021, 11,785,717 Facility Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below detailed below and in Note 18.3:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
11,785,717	16 July 2024	\$0.070	Immediately upon issue

18.2.3.2. *Facility Options*

On 24 July 2020, 2,980,276 Facility Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below detailed below and in Note 18.3:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
2,980,276	16 July 2024	\$0.070	Immediately upon issue

18.2.3.3. *Broker Options*

On 24 July 2020, 2,384,221 Broker Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below detailed below and in Note 18.3:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
2,384,221	16 July 2024	\$0.070	Immediately upon issue

18.2.3.4. *T1 Investor Options*

On 23 December 2020, 8,035,715 T1 Investor Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below detailed below and in Note 18.3:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
8,035,715	16 July 2024	\$0.070	Immediately upon issue

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2021

Note 18 Share-based payments (continued)**18.3. Fair value of options granted during the half-year**

The weighted average fair value of options granted during the half-year was \$0.060 (31 December 2020: \$0.090). These values were calculated using the Black-Scholes option pricing model, applying the following inputs to options:

Note Reference	18.2.3.1
Grant date:	23.11.2021
Grant date share price:	\$0.043
Option exercise price:	\$0.07
Number of options issued:	11,785,717
Remaining life (years):	2.6
Expected share price volatility:	89.03%
Risk-free interest rate:	1%
Value per option	\$0.0223

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Note 19. Operating segments

The Group has identified its operating segment based on the internal reports that are reviewed and used by the Board of Directors (Chief operating decision makers) in assessing performance and determining the allocation of resources.

The financial information presented in the consolidated statement of comprehensive income and the consolidated statement of financial position is the same as that presented to the chief operating decision maker.

Unless stated otherwise, all amounts reported to the Board of directors as the chief operating decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group. During the current period, the Group is considered to operate in one segment, being home security services in the USA.

APPENDIX 4D

Interim Financial Report
31 December 2021

SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Directors' declaration

The Directors of the Company declare that:

1. The condensed financial statements and notes, are in accordance with the *Corporations Act 2001* (Cth) and:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the financial position as at 31 December 2021 and of the performance for the half-year ended on that date of the Company.
2. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



DAN ROBERTS

Executive Director

Dated this Monday, 28 February 2022

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SCOUT SECURITY LIMITED

Conclusion

We have reviewed the accompanying half-year financial report of Scout Security Limited ("the Company") and its subsidiaries ("the Controlled Entities") which comprises the condensed consolidated statement of financial position as at 31 December 2021, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Scout Security Limited and Controlled Entities does not comply with the *Corporations Act 2001* including:

- a. Giving a true and fair view of Scout Security Limited financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.1.2 in the financial report, which indicates that the Consolidated Entity incurred a net loss of \$1,918,397 during the half year ended 31 December 2021. As stated in Note 1.1.2, these events or conditions, along with other matters as set forth in Note 1.1.2, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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Responsibility of the Directors for the Financial Report

The directors of Scout Security Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

Hall Chadwick

HALL CHADWICK WA AUDIT PTY LTD

Mark Delaurentis

MARK DELAURENTIS CA
Director

Dated this 28th day of February 2022

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