

Scout Security (ASX: SCT) is a white label security-as-a-service platform and product suite powering recurring revenue for some of the largest security, internet service, and telco providers in the world.



21 November 2023

Ms Barbara Lim  
Adviser, Listings Compliance  
ASX  
Level 40, Central Park  
152-158 St Georges Terrace  
Perth WA 6000

Dear Ms Lim

### **ASX Appendix 4C Query**

I refer to your letter dated 14 November 2023 and provide Scout Security Limited (ASX:SCT) responses to the queries therein as follows:

- 1. Please confirm if SCT still expects to continue to have a similar level of net operating cash outflows of approximately \$912,000 per quarter (paragraph A). If not, please provide details.*

No, our expenses are expected to remain relatively flat over the coming quarters. At the same time, as put into more detail below, we expect our cash from sales to increase, thus reducing net outflows.

- 2. Has SCT drawn any further funds from the April 2023 Facility since 30 September 2023 (paragraph B)? If so, please specify the amount drawn down and the date of the draw down.*

As of this response Scout has not drawn any further funds from the April 2023 Facility since 30 September 2023.

- 3. Does SCT have a current ability to draw down on further funds (up to USD4,000,000 (A\$6,040,000) in aggregate) under the April 2023 Facility?*

To draw additional funds under the April 2023 Facility, the Company must first offer participation to the existing Loan Note Holders. If those holders do not accept the offer to participate then the Company can look to offer participation to new Loan Note Holders. There is currently no participation offer pending and therefore there are no funds available to be drawn under the facility.

If necessary any warrants to be issued to Loan Note Holders are subject to the approval of shareholders in the event that the Company does not have sufficient capacity under ASX Listing Rule 7.1 to issue.



4. *Please describe all conditions that need to be satisfied to enable SCT to draw down on the further funds under the April 2023 Facility. Does SCT believe that it will be successful in satisfying these conditions? If so, what is the approximate time it will take to satisfy these conditions?*

*There are no documented unsatisfied "conditions precedent" under the facility. Note holders are required to execute facility documentation that then provides for their effective accession to the Debt Facility terms. Discussions with new and existing loan note holders would be subject to the usual due diligence (and associated timeframes) that these holders may request.*

5. *Outside of the April 2023 Facility, has SCT taken any steps, or does it propose to take any steps, to raise further cash to fund its operations, and, if so, what are those steps and how likely does it believe that they will be successful?*

Yes, Scout has engaged with corporate advisors in both Australia and the United States to evaluate further outside investment opportunities. These include an on market capital raise, rights issue, off market placement, and M&A transactions.

Scout has further engaged with Origin Wireless on a statement of work, for Scout to build a custom mobile application. Receipt of all funds associated with this are expected over the coming quarter.

Scout has launched a sales promotion in the United States, which can bring in up to USD\$144k in cash to the business. Sales are expected to complete prior to the end of the quarter.

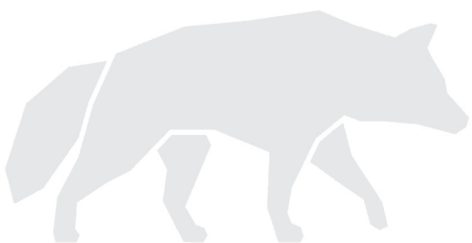
The Company continues to balance investment funds relative to cash inflows from normal course of business. In addition to in-market partners currently scaling recurring revenue, Scout is engaged in advanced discussions with 4 large enterprises, each of those projects having the potential to deliver between \$250k (A\$385k) and \$500k (A\$768k) in non-recurring engineering (NRE) across the next quarter.

6. *What amount is repayable, and the relevant date for the repayment(s), under the convertible note described in paragraph A(vii)?*

AUD\$1,475,000

7. *Does SCT expect that it will be able to meet its obligations under the convertible note described in paragraph A(vii). Please provide the basis for this view.*

Yes. The Company is in discussions with the convertible note holders in regards to the maturity of the facility at 31 December 2023. These conversations entail potentially extending the term of the notes, and/or modifying the terms of the notes to facilitate repayments now or in the future.



8. *Do the directors still believe that SCT is a going concern? Please provide the basis for this view.*

Yes. We believe Scout continues to operate on a going concern basis due to the details provided above and also noting the new SOW with Origin Wireless, the collaboration happening with Corporate Advisors exploring various debt and equity options, our current sales promotion, and our existing sales pipeline.

9. *Please confirm that SCT is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.*

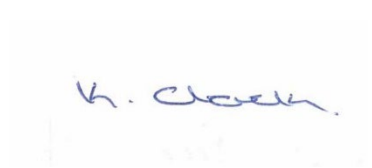
Confirmed. As of this release we have no information that would fall under LR3.1 that has not already been publicly disclosed.

10. *Please confirm that SCT's responses to the questions above have been authorized and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SCT with delegated authority from the board to respond to ASX on disclosure matters.*

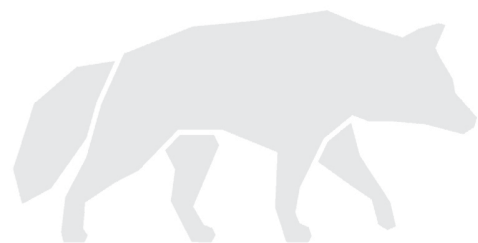
Confirmed, the responses herein are authorised and approved in accordance with Scouts continuous disclosure policy and approved by its Board of Directors.

Please do not hesitate to contact me should you have any queries upon review.

Yours sincerely



Kim Clark  
Company Secretary.





14 November 2023

Reference: 83666

Ms Kim Clark  
Company Secretary  
Scout Security Limited

By email: kim.clark@boardroomlimited.com.au

Dear Ms Clark

**Scout Security Limited ('SCT'): Appendix 4C Query**

ASX refers to the following:

- A. SCT's Appendix 4C for the quarter ending 30 September 2023 and published on the ASX Market Announcements Platform ('MAP') on 31 October 2023, which disclosed (relevantly):
- i. At Item 8.1, that SCT incurred net operating cash outflows of \$912,000 for the quarter.
  - ii. At Item 8.4, that SCT had \$195,000 of total funding available.
  - iii. At Item 8.5, that SCT had 0.21 quarters funded.
  - iv. At Item 8.6.1, in response to the question as to whether SCT expected to continue to have the current level of net operating cash flows, SCT responded "Yes".
  - v. In response to the question in Item 8.6.2, as to whether SCT has taken any steps, or proposes to take any steps, to raise further cash to fund its operations and, if so, what steps and how likely does it believe that they will be successful, SCT responded "[t]he company has a debt facility currently being funded. Refer to ASX announcement dated 28 April 2023."
  - vi. In response to the question in Item 8.6.3, as to whether and the basis upon which SCT expects to be able to continue its operations and to meet its business objectives, SCT responded "Yes, the company continues to fill the open debt facility and investigate all avenues of future funding, while also growing its monthly recurring revenues to offset cash expenditures".
  - vii. In Item 7.5, that SCT did not have any unused financing facilities available at quarter end and further disclosed (our emphasis added):  
  
*"7.1 In the June 2023 Quarter, the company entered into a new finance facility with a syndicate of mostly US-based investors. (Refer to ASX announcement dated 28 April 2023). Facility includes rollover of previous debts and additional funds totalling \$3.07M AUD drawn at 30 September 2023. Interest rate is 12.0% per annum with a term of five (5) years..."*  
  
*7.3 On 16 July 2020, the company entered into a convertible note deed to raise up to \$2M (Refer ASX announcement dated 16 July 2020). During the March 2021 quarter, the Company secured a new Convertible Note Facility to raise \$450k on the same terms as the existing facility. A total drawdown of \$1,475,000 has been completed. **The term matures on 31 December 2023...**"*
- B. SCT's announcement titled "USD\$1.72 million (AU\$2.59m) Finance Facility" and released on MAP on 29 April 2023 (the 'April 2023 Facility') which disclosed that (our emphasis added):  
  
*"[SCT] is pleased to announce that the Company has entered into a new finance facility with a syndicate of mostly US-based investors (together the "Lenders")."*

The key terms of the facility are:

- Rollover of existing secured debt facility of USD\$567k (AU\$857k)...
- A new note facility of USD\$1.72 million (AU\$2.59m), representing net USD\$1.15 million (AU\$1.74m) of additional funds.

Scout **reserves the right to accept up to USD\$4 million (AU\$6.04m) in aggregate to the facility at the same terms.**

C. SCT's Annual Report for the financial year ending 30 June 2023 and published on MAP on 30 August 2023, which disclosed that:

- Net operating cash outflows of \$3,755,952 in the financial year ending 30 June 2022 and net operating cash outflows of \$3,442,303 in the financial year ending 30 June 2023;
- In note 22.1.3 to the consolidated financial statements that (our emphasis added):

*"The Directors believe it is appropriate to prepare these accounts on a going concern basis because:*

*...*

- *In April 2023 Scout entered into a ~\$2.59m finance facility with the ability to raise up to \$6.04m detailed in note 5.7.4. At date of report released, \$3.04m has been funded and **\$3.0m remains available.***
- *The Company is **in discussions with existing convertible note holders** regarding the notes upcoming expiration. Discussions include repayment of the notes, an extension from the current repayment date, and rolling the notes into the new debt facility...*
- *The month-on-month growth of existing white label customers, along with the addition of new ones, **will increase incoming cash payments on an ongoing basis**, thus bolstering the financial stability. Additional development fees from white label partners is expected to bring in upwards of \$300k by the end of the calendar year*

*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.***

- The Independent Auditor's Report attached to the financial statements that disclosed that "We draw attention to Note 22.1.3 in the financial report, which indicates that the Group incurred a net loss of \$4,542,362 during the year ended 30 June 2023. As stated in Note 22.1.3, these events or conditions, along with other matters as set forth in Note 22.1.3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern."

D. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

E. Listing Rule 12.2, which states:

*"An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing."*

F. Section 14 of Guidance Note 14, which states:

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*"Any forward looking statements in an announcement... must be based on reasonable grounds or else by law they will be deemed to be misleading."*

### Request for information

Having regard to the above, ASX asks SCT to respond separately to each of the following questions and requests for information:

1. Please confirm if SCT still expects to continue to have a similar level of net operating cash outflows of approximately \$912,000 per quarter (paragraph A). If not, please provide details.
2. Has SCT drawn any further funds from the April 2023 Facility since 30 September 2023 (paragraph B)? If so, please specify the amount drawn down and the date of the draw down.
3. Does SCT have a current ability to draw down on further funds (up to USD\$4,000,000 (A\$6,040,000) in aggregate) under the April 2023 Facility?
4. Please describe all conditions that need to be satisfied to enable SCT to draw down on the further funds under the April 2023 Facility. Does SCT believe that it will be successful in satisfying these conditions? If so, what is the approximate time it will take to satisfy these conditions?
5. Outside of the April 2023 Facility, has SCT taken any steps, or does it propose to take any steps, to raise further cash to fund its operations, and, if so, what are those steps and how likely does it believe that they will be successful?
6. What amount is repayable, and the relevant date for the repayment(s), under the convertible note described in paragraph A(vii)?
7. Does SCT expect that it will be able to meet its obligations under the convertible note described in paragraph A(vii). Please provide the basis for this view.
8. Do the directors still believe that SCT is a going concern? Please provide the basis for this view.
9. Please confirm that SCT is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.
10. Please confirm that SCT's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SCT with delegated authority from the board to respond to ASX on disclosure matters.

### When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **3:30 PM AWST Friday, 17 November 2023**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, SCT's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require SCT to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office.

### Trading halt

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If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in SCT's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

### **Suspension**

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in SCT's securities under Listing Rule 17.3.

### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to SCT's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that SCT's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

### **Release of correspondence between ASX and entity**

ASX reserves the right to release all or any part of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

### **Questions**

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

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**Barbara Lim**  
Adviser, Listings Compliance