scout

SCOUT SECURITY LIMITED

ACN 615 321 189

SCOUT SECURITY LIMITED

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2018

CORPORATE DIRECTORY

Directors

Mr Daniel Roberts – Chief Executive Director
Mr David Shapiro – Executive Director
Mr Anthony Brown – Non-Executive Director
Mr Sol Majteles – Non-Executive Director

Home Stock Exchange

Australian Securities Exchange Limited
Level 40
Central Park
152-158 St George's Terrace
PERTH WA 6000
ASX Code:
SCT (Ordinary Shares)

Company Secretary

Mr Stuart Usher

Auditor

Nexia Perth Audit Services Pty Ltd
Level 3
88 William Street
PERTH WA 6000

Registered Office - Australia

Unit 7, 151 Macquarie Street
SYDNEY NSW 2000

Bankers

Westpac Banking Corporation
130 Rokeby Road
SUBIACO WA 6008

Registered Office – United States

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

Share Registry

Link Market Services
Central park
Level 4, 152 St Georges Terrace
PERTH WA 6000

Solicitors

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

SCOUT SECURITY LIMITED

ACN 615 321 189

INTERIM FINANCIAL REPORT 31 DECEMBER 2018

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SCOUT SECURITY LIMITED

ACN 615 321 189

INTERIM FINANCIAL REPORT 31 DECEMBER 2018

DIRECTORS' REPORT

The Directors of Scout Security Limited (the **Company**) and controlled entities (the **Group** or **Consolidated Entity**) submit the following report for the half year ended 31 December 2018 (**Financial Period**).

DIRECTORS

The names and the particulars of the Directors of the Company during the half year and to the date of this report are:

Mr Daniel Roberts	Chief Executive Officer
Mr David Shapiro	Executive Director
Mr Anthony Brown	Non-Executive Director
Mr Sol Majteles	Non-Executive Director
Mr John Strong	Non-Executive Chairman (Resigned 15 January 2019)

COMPANY SECRETARY

Mr Stuart Usher

REVIEW AND RESULTS OF OPERATIONS

The net loss of the Group after income tax for the half year ended 31 December 2018 amounted to $1,616,417 (31 December 2017:$2,703,878). Continued growth in sales saw Scout achieve H1 FY19 revenue of AU$1,839,957, up 92% from the half year ended 31 December 2017. Growth in revenue was driven primarily by stronger system sales through the Company's white label channels. Net assets of the Consolidated Entity were $2,041,440 at 31 December 2018, compared to $427,730 at 30 June 2018.

The net loss represented a positive AU$1.087 million turnaround as the Company built on existing distributor relationships, enhanced its online presence and secured new strategic partners to provide Scout with a path to long-term international growth.

In September, Scout entered a binding agreement providing access to an A $500k working capital facility to ease Scout's supply chain constraints and maximise the Company's growth potential. The facility supported Scout's general operational expenditures and empowered the Company to boost inventory orders, increase turnover and drive expansion in its white label-connected security platform. This facility was repaid in February 2019.

REVIEW OF ACTIVITIES

During the half--year ended 31 December 2018, the following activities were undertaken.

- The group entered into commercial agreements with the following partners : Stanley Black & Decker, Walmart & Prosegur.

- In December 2018, a strategic partnership with multinational security company Prosegur Compañía de Seguridad, S.A (BMAD: PSG, "Prosegur") and an investment of up to US$5.3 million (A$7.4 million, based on an agreed exchange rate of US$1: A$0.71) was executed. The investment was structured by way of a placement of 10,837,368 shares at an issue price of $0.275 per share to raise approximately A$2.9 million and an issue of 16,005,508 options to acquire shares (exercisable at A$0.28 on or before 31 December 2019). If all the options are exercised, the Company will receive further funding of approximately A $4.5 million.

- The Company and Prosegur also entered into a commercial agreement under which they agreed to negotiate a formal arrangement over the next 18 months to grant Prosegur exclusive rights to distribute Scout's full suite of branded security products into Prosegur's key monitoring business markets of Spain, Portugal, Argentina, Peru and Chile. It is also anticipated that the Company will grant Prosegur exclusive rights in relation to Company products and technology in key international regions, and Prosegur will provide the Company access to a range of opportunities and strategic services.

SUBSEQUENT EVENTS

Repayment of Working Capital Facility

On 6 February 2019, the Company advised it had fully repaid the working capital loan facility received on 28 September 2018. Under the terms of the agreement the Company received $500,000 with the loan facility having an initial term of 180 days and a minimum term of 90 days. The agreement allowed the lender the opportunity to receive 166,667 options per month in lieu of a reduced interest rate of 7.25% per annum for as long as the loan remained unpaid, with an interest rate of 12.25% per annum if they elected not to receive these options. During the term of the loan, the lender elected the lower interest rate of 7.25% and consequently received a fee of 500,001 options (being 166,667 options for three months). Scout will seek Shareholder approval for the issue of these options at a forthcoming general meeting of shareholders expected to be scheduled shortly. The options have an exercise price of A$0.30 and an expiry date of two years from the date of issue. The general security deed over the assets of Scout Security Ltd is in the process of being removed.

There have been no other matters or circumstances that have arisen since 31 December 2018 that have significantly affected or may significantly affect:

- the Group's operations in future years; or
- the results of those operations in future years; or
- the Group's state of affairs in future years.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to the Directors of the Consolidated Entity on page 17 forms part of the Directors' Report for the half year ended 31 December 2018.

This report is signed in accordance with a resolution of the Board of Directors.

Mr Daniel Roberts
Chief Executive Officer
28 February 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Note	Half year ended 31 December 2018 $	Half year ended 31 December 2017 $
Revenue		1,839,957	957,209
Cost of sales		(1,454,930)	(623,495)
Gross profit		385,027	333,714
Other income		652	1,474
Consulting and professional fees		(515,695)	(465,639)
Depreciation and amortisation expense		(11,928)	(34,095)
Employee expenses		(722,061)	(728,716)
Listing fee expense on acquisition of Scout USA		-	(696,000)
Rental costs		(46,294)	(36,345)
Share based payments	6	(173,337)	(654,000)
Information technology costs		(109,304)	(73,678)
Sales and marketing		(93,765)	(125,219)
Shipping and postage		(10,127)	(12,301)
Travel and entertainment		(43,407)	(39,255)
Other expenses		(276,178)	(173,818)
Loss before income tax expense		(1,616,417)	(2,703,878)
Income Tax		-	-
Loss for the year		**(1,616,417)**	**(2,703,878)**
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation (net of tax)		50,245	35,328
Total comprehensive loss for the period net of tax		**(1,566,172)**	**(2,668,550)**
Basic and diluted loss per share (cents)	9	(1.48)	(3.59)

The accompanying condensed notes form part of these financial statements.

SCOUT SECURITY LIMITED
ACN 615 321 189
INTERIM FINANCIAL REPORT 31 DECEMBER 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	31 December 2018 $	30 June 2018 $
CURRENT ASSETS			
Cash and cash equivalents		2,800,024	269,616
Inventory		813,871	878,441
Prepayments – inventory orders		591,038	687,499
Trade receivables		504,601	7,996
Other current assets		60,104	31,724
TOTAL CURRENT ASSETS		4,769,638	1,875,276
NON-CURRENT ASSETS			
Plant and equipment		43,960	59,519
TOTAL NON-CURRENT ASSSETS		43,960	59,519
TOTAL ASSETS		4,813,598	1,934,795
CURRENT LIABILITIES			
Trade and other payables		1,615,917	1,246,036
Unearned revenue		656,241	261,029
Loans		500,000	-
TOTAL CURRENT LIABILITIES		2,772,158	1,507,065
TOTAL LIABILITIES		2,772,158	1,507,065
NET ASSETS		**2,041,440**	**427,730**
EQUITY			
Issued capital	5	12,130,344	9,123,799
Reserves		3,188,803	2,965,221
Accumulated losses		(13,277,707)	(11,661,290)
TOTAL EQUITY		**2,041,440**	**427,730**

The accompanying condensed notes form part of these financial statements.

SCOUT SECURITY LIMITED
ACN 615 321 189
INTERIM FINANCIAL REPORT 31 DECEMBER 2018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Share Capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Exchange Reserve $	Total $
Balance as at 1 July 2018	**9,123,799**	**(11,661,290)**	**2,914,323**	**50,898**	**427,730**
Total Comprehensive Income				-	
Loss for the period	-	(1,616,417)	-	-	(1,616,417)
Foreign currency translation differences	-	-	-	50,245	50,245
Total comprehensive loss for the period	-	**(1,616,417)**	-	**50,245**	**(1,566,172)**
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs)	3,006,545	-	-	-	3,006,545
Share based payments	-	-	173,337	-	173,337
Balance as at 31 December 2018	**12,130,344**	**(13,277,707)**	**3,087,660**	**101,143**	**2,041,440**

	Share Capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Exchange Reserve $	Total $
Balance as at 1 July 2017	5,019,272	(7,663,789)	-	228,213	(2,416,304)
Total Comprehensive Income					
Loss for the period	-	(2,703,878)	-	-	(2,703,878)
Foreign currency translation differences	-	-	-	35,328	35,328
Total comprehensive loss for the period	-	(2,703,878)	-	35,328	(2,668,550)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs)	5,865,395	-	-	-	5,865,395
Share based payments	(1,940,597)	-	3,290,597	-	1,350,000
Balance as at 31 December 2017	**8,944,070**	**(10,367,667)**	**3,290,597**	**263,541**	**2,130,541**

The accompanying condensed notes form part of these financial statements.

CONDESED CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Half year ended 31 December 2018 $	Half year ended 31 December 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,869,512	936,673
Payments to suppliers and employees	(2,832,494)	(4,956,402)
Interest received	603	1,474
Net cash used in operating activities	(962,379)	(4,018,255)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,055,276	6,610,050
Share issue costs	(48,731)	(749,605)
Interest paid	(13,758)	-
Proceeds from borrowings	500,000	-
Repayment of borrowings	-	(84,188)
Net cash provided by financing activities	3,492,787	5,776,257
Net increase/(decrease) in cash and cash equivalents held	2,530,408	1,758,002
Cash and cash equivalents at the beginning of period	269,616	57,556
Cash and cash equivalents at the end of period	2,800,024	1,815,558

The accompanying condensed notes form part of these financial statements.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

NOTE 1: REPORTING ENTITY

The interim financial report (**Report**) of Scout Security Limited (the **Company**) and its controlled entities (the **Group** or **Consolidated Entity**) for the half year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Directors on 28 February 2019.

Scout Security Limited is a listed public company, trading on the Australia Securities Exchange, is limited by shares, and is incorporated and domiciled in Australia.

NOTE 2: BASIS OF PREPARATION

The half-year financial report is a general purpose financial report prepared in accordance with AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as in the full financial report. The half-year financial report should be read in conjunction with the annual financial report of Scout Security Limited as at 30 June 2018 which was prepared in accordance with the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. It is also recommended that the half-year financial report be considered together with any public announcements made by the Company during the period 1 July 2018 to the date of this report in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The half-year financial report has been prepared on the basis of historical cost, except where otherwise stated.
These financial statements are presented in Australian dollars.

(i) Going Concern

These half-year financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Group reported a net loss for the period of $1,616,417, and a cash outflow from operating activities of $962,379. The Group had a net working capital surplus of $1,997,480 including cash of $2,800,024 at 31 December 2018.

Management believes that there are sufficient funds available to continue to meet the Group's working capital requirements for a period of at least 12 months from the date of this report. The December 2018 capital investment of $2,980,276 into the business has provided the capital needed to execute against near-term growth plans. As part of the investment, the Company also issued 16,005,508 unlisted options exercisable at $0.28 per option on or before 31 December 2019. If all of these options are converted the Company will raise approximately $4.5m. The Company agreed not to issue any further shares without first offering the holder of these options the opportunity to convert some or all of their options.

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business for the following reasons:

(a) Recent investment activity has provided near-term capital to expand marketing efforts, supporting continued sales through the Scout website, Amazon.com and other online retailers.
(b) The Company's track record of securing additional funding when required for working capital or expansion purposes.
(c) Forecasted sales growth from existing and recently announced white label partners expanding commercialisation efforts both in the United States and Internationally.
(d) Scout's track record to date of selling home security systems and related system over the past five years in the US market.
(e) The addition of planned new products 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, 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.

(ii) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all the subsidiaries that Scout Security Limited has the power to control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

(iii) Adoption of Accounting Policies

The accounting policies adopted are consistent with the accounting policies of Scout Security Limited last annual financial report for the year ended 30 June 2018 and corresponding interim reporting period except for the following new standards adopted below:

a) Adoption of new and revised accounting standards effective 1 July 2018

In the half-year ended 31 December 2018, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2018. The impact of these standards are disclosed below:

AASB 15 Revenue from Contracts with Customers.

AASB 15 Revenue from contracts with Customers ("AASB 15") replaces AASB 118 Revenue and AASB 111 Construction Contracts and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

Revenue from sale of goods

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when the customer obtains control of that asset. Revenue is recognised when the goods are shipped to the customer. There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative years.

Revenue from rendering of services

Revenue from the monitoring services (subscriptions) is recognised over time, as the customer simultaneously receives and consumes the services performed by the Group (i.e. monitoring of the alarm system by Scout Security). There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative years.

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and makes changes to a number of areas including classification of financial instruments, measurement, impairment of financial assets and hedge accounting models. Financial instruments are classified as either held at amortised cost or fair value. Financial instruments are carried at amortised cost if the business model concept can be satisfied.

All equity instruments are carried at fair value and the cost exemption under AASB 139 which was used where it was not possible to reliably measure the fair value of an unlisted entity has been removed. Equity instruments which are non-derivative and not held for trading may be designated as fair value through other comprehensive income (FVOCI). Previously classified available-for-sale investments, now carried at fair value are exempt from impairment testing and gains or losses on sale are no longer recognised in profit or loss. The AASB 9 impairment model is based on expected loss at day one, rather than needing evidence of an incurred loss, this is likely to cause earlier recognition of bad debt expenses.

The Group has applied AASB 9 retrospectively with the effect of initially applying this standard at the date of initial application, being 1 July 2018, and has elected not to restate comparative information. There was no material impact to profit or loss or net assets on the adoption of AASB 9 in the current or comparative years.

(b) New Accounting Standards not yet effective:

AASB 16 Leases

AASB 16 Leases removes the lease classification test for lessees and requires most leases (including operating leases) to be brought onto the statement of financial position. AASB 16 will become mandatory for the Group's 30 June 2020 financial statements, with early adoption permitted where AASB 15 Revenue from Contracts with Customers is adopted at the same time. The Group is currently making detailed assessments on the impact of this standard.

(iv) Earnings Per Share

The weighted average number of shares outstanding for the half-year ended 31 December 2018 is based on the weighted average number of shares of Scout Security Limited outstanding in the period.

(v) Performance shares

The Group has not recognised any cost associated with the issue of the performance shares as there remains significant uncertainty as to whether the performance milestones will be met and the performance shares will convert to ordinary shares.

(vi) Foreign currency transactions and balances

i. Functional and presentation currency

Items included in the Financial Statements of each of the Company entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Scout Security Limited, has a functional currency of Australian Dollar (AUD). The functional currency of Scout Security Inc. is United States Dollar. The half-year financial statements are presented in Australian Dollars (AUD), which is Scout Security Limited's presentation currency.

ii. Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair value was determined.

iii. Translation of Foreign Operations

For the purposes of presenting these consolidated financial statements in Australian Dollars, the Statement of Profit or Loss and other Comprehensive Income is translated at the average exchange rates for the period and the assets and liabilities are translated at the rate prevailing at the end of the reporting period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of the foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation will be recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(vii) Significant Judgements and Key Assumptions

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are disclosed in the relevant notes.

NOTE 3: SEGMENT INFORMATION

The Company has identified its operating segment based on internal reports that are reviewed by the Board and management. The Company has one operating segment being home security services in the USA. The revenues and results of this segment are those of the Company as a whole and are set out in the Statement of Profit or Loss and Other Comprehensive Income. The segment assets and liabilities are those of the Company as a whole and are set out in the Statement of Financial Position.

NOTE 4: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities as at 31 December 2018.

NOTE 5: ISSUED CAPITAL	**31 December 2018 $**	**30 June 2018 $**
(a) Share Capital		
119,211,053 (30 June 2018: 108,123,685) fully paid ordinary shares	12,130,344	9,123,799

	No.	**$**
(b) Movement in Ordinary Capital		
Opening balance at 1 July 2018	108,123,685	9,123,799
Issue of shares in relation to capital raising via placement (Director participation) @ 30 cents per share	250,000	75,000
Issue of shares via share subscription agreement @ 27.5 cents per share	10,837,368	2,980,276
Add: Capital raising costs adjustment	-	(48,731)
Closing balance at 31 December 2018	**119,211,053**	**12,130,344**

CONDENSED NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

NOTE 6: SHARE BASED PAYMENT RESERVE	31 December 2018 $	30 June 2018 $
(a) Options and Rights		
Share Based Payment Reserve	3,087,660	2,914,323
	No.	**$**
(b) Movement in Options and Rights		
Opening balance at 1 July 2018	62,800,000	2,914,323
Options issued via share subscription agreement^	16,005,508	-
Share based payments for options issued during the period #	500,001	8,493
Share based payment expense for options issued in the prior period	-	164,844
Closing balance at 31 December 2018	**79,305,509**	**3,087,660**

Total share based payments expense for the half-year ended 31 December 2018 is $173,337 (31 December 2017: $1,350, 000 which includes the listing fee expense of $696,000).

Included in the opening balance of 62,800,000 Options and Rights are 36,000,000 performance shares which were issued on 22 August 2017. The Group has not recognised any cost associated with the issue of the performance shares as there remains significant uncertainty as to whether the performance milestones will be met and hence whether the performance shares will convert to ordinary shares.

^ The Group issued 10,837,368 ordinary shares and 16,005,508 options as part of a share subscription agreement. The total funds raised from the capital raising was $2,980,276. Refer note 5 for further detail.

These options have been granted in accordance with a Loan agreement for a $500,000 working capital loan. The loan was drawn down on 28 September 2018. As part of the loan agreement interest was payable at 12.25%, however the lender had the option to charge interest at 7.25% in exchange for options to buy shares in the company. The lower rate of interest was charged for the entire period. The value of the options comprises the difference in the interest charged between the two rates. The loan was repaid subsequent to year end, refer to note 8.

NOTE 7: DIVIDENDS

The Company did not pay or propose any dividends in the half year to 31 December 2018.

NOTE 8: SUBSEQUENT EVENTS

On 6 February 2019, the Company advised it had fully repaid the working capital loan facility received on 28 September 2018. Under the terms of the agreement the Company received $500,000 with the loan facility having an initial term of 180 days and a minimum term of 90 days. The agreement allowed the lender the opportunity to receive 166,667 options per month in lieu of a reduced interest rate of 7.25% per annum for as long as the loan remained unpaid, with an interest rate of 12.25% per annum if they elected not to receive these options. During the term of the loan, the lender elected the lower interest rate of 7.25% and consequently received a fee of 500,001 options (being 166,667 options for three months). Scout will seek Shareholder approval for the issue of these options at a forthcoming general meeting of shareholders expected to be scheduled shortly. The options have an exercise price of A$0.30 and an expiry date of two years from the date of issue. The general security deed over the assets of Scout Security Ltd is in the process of being removed.

There have been no other matters or circumstances that have arisen since 31 December 2018 that have significantly affected or may significantly affect:

- the Group's operations in future years; or
- the results of those operations in future years; or
- the Group's state of affairs in future years.

NOTE 9: LOSS PER SHARE

The following reflects income and share data used in the calculation of basic and diluted loss per share.

	31 December 2018 $	31 December 2017 $
Total loss for the period	1,616,417	2,703,879
	No.	**No.**
Weighted average number of ordinary shares in calculating basic and diluted loss per share	**109,558,574**	**75,345,837**

NOTE 10: RELATED PARTY TRANSACTIONS

Related party transactions are in the form of short-term employee benefits, post-employment benefits, share based payments and loans to subsidiaries. Arrangements with related parties continue to be in place. For further details of these arrangements please refer to the 30 June 2018 annual report.

DIRECTORS' DECLARATION

The Directors of Scout Security Limited declare that:

1. The financial statements and notes, as set out on pages 6 to 15 are in accordance with the Corporations Act 2001 and:
   a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
   b) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the period ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Group 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.

Mr Daniel Roberts
Chief Executive Officer
28 February 2019

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To the directors of Scout Security Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2018, there have been:

(i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

Nexia Perth Audit Services Pty Ltd

TJ Spooner FCA FCA(UK) AGIA ACIS AMIIA

Director
Perth 28 February 2019

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Independent Auditor's Review Report to the members of Scout Security Limited

Conclusion

We have reviewed the accompanying interim financial report of Scout Security Limited and its controlled entities (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2018, 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, notes comprising a summary of accounting policies, other explanatory notes, and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, nothing has come to our attention that causes us believe that the interim financial report of Scout Security Limited and its controlled entities is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended 31 December 2018; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

Material Uncertainty Regarding Going Concern

We draw attention to Note 2 (i) in the financial report which discloses that the Group reported a net loss for the half-year ended 31 December 2018 of $1,616,417 and a cash outflow from operating activities of $962,379. The Group reported a net working capital surplus of $1,997,480 including cash of $2,800,024 at 31 December 2018. As stated in Note 2(i), these events or conditions, along with other matters set forth in Note 2(i), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our review conclusion is not modified in respect of this matter.

Directors' Responsibility for the Interim Financial Report

The directors of the Group are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the Corporations Act 2001. This responsibility includes: establishing and maintaining internal controls relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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Auditor's Responsibility

Our responsibility is to express a conclusion on the interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 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*. As the auditor of Scout Security Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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 *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Scout Security Limited, would be in the same terms if given to the directors as at the time of this report.

Nexia Perth Audit Services Pty Ltd

TJ Spooner FCA FCA(UK) AGIA ACIS AMIIA

Director

Perth 28 February 2019