scout

SCOUT SECURITY LIMITED

ACN 615 321 189

**ANNUAL REPORT**

**SCOUT SECURITY LIMITED**
**FOR THE ENDED 30 JUNE 2019**

## 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

**Company Secretary**
Mr Stuart Usher

**Registered Office – Australia**
Suite 1, GF, 437 Roberts Road
Subiaco WA 6008

**Registered Office – United States**
210 North Racine Avenue
Unit 3S, Chicago, IL 60607
United States of America

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

**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)

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

**Bankers**
Westpac Banking Corporation
130 Rokeby Road
Subiaco WA 6008

**Share Registry**
Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009

**Chief Executive's Message**

Dear Shareholder,

Since we listed on the Australian Securities Exchange in 2017, Scout Security Ltd (ASX: SCT) has focused on building a leading software and service platform for the DIY home security market. While the past year has provided some challenges for Scout, and our market performance has not matched all expectations, we continue to focus on delivering on our potential and creating long-term value for our shareholders.

The DIY security market around the world continues to rapidly expand. Scout is one of the few independent DIY platforms remaining for enterprise partners, and we are leveraging this position to create greater opportunities for future growth. Scout is now the only direct-to-consumer brand that offers a white label platform to enterprise partners that we're aware of. The partnerships we have established with global brands Prosegur and Stanley Black and Decker during the past 12 months have validated our product offering and business model and have the potential to impact our distribution scale in the coming 12 months. In addition, Prosegur's decision to invest in the Company via two tranches is empowering Scout to accelerate our plans to expand beyond the United States into international markets. While these agreements with large multinational companies are impressive, executing them takes a significant investment of time and effort from our team – up to 12 months of discussions and negotiations leading into any announcement. From there, it also takes a long time to develop a product for launch, as every aspect is customised to meet specific needs of our partners. We are working hard to achieve the goals we set for our Company as well as the requirements of our customers, and we expect to report on our success in these endeavors over the coming months.

We are proud of what we've achieved with our products and platform over the past few years. The Scout solution is now a mature home security offering which aims to appeal to a broader range of targeted customers. The recent addition of the Scout Keypad and Video Doorbell rounded out our product offering, while also providing a way to unbundle video security from a gateway. We are already seeing that our bolstered product suite, with multiple entry points to the Scout ecosystem, and our marketing are motivating consumers to consider a more comprehensive security solution from Scout.
We also bolstered our existing relationship with key resale partner Zego. This partnership to date has exceeded our expectations and we've recently revised the agreement to terms which are starting to generate ongoing subscription revenue for Scout. Paylease's recent acquisition of a majority stake in Zego is an opportunity to continue pushing smart security initiatives in the multi-tenant channel, on a large scale.

We continue to push towards being cash flow positive from our operating activities, and actively worked to reduce our cash outflows by $2.5 million in FY2019 compared to the prior 12 months. Reducing overhead while also pushing forward our growth strategies requires balance and we believe the recently-announced working capital facility of up to A$1 million, available in two separate tranches, will help in that regard.

I would like to thank the members of Scout's management team as well as our staff for their efforts and support over the past year. We are a tight knit team with the diverse skills that the Company needs to deliver on its goals, and I am looking forward to us working together to pursue these in the year ahead. I also thank our shareholders for their continued belief in our Company while we execute on our strategy. We expect our white label business to continue to deliver growth through the coming year. We will continue to build on our existing white label partnerships and have an exciting pipeline of potential new partners which could provide further growth opportunities in the coming months. We look forward to announcing details of these when agreements are finalised. At the same time, Scout will continue to invest in and optimise its direct-to-consumer marketing as we work on reducing customer acquisition costs and identifying new methods of acquiring and retaining users.

Our activities and achievements during the year have left Scout well-positioned for growth in FY20 as we continue to execute on our strategy, and I look forward to reporting on our success throughout the year ahead.

Dan Roberts
Executive Director and CEO

The Directors present their report, together with the financial report of Scout Security Limited for the year ended 30 June 2019 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

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

Daniel Roberts
David Shapiro
Anthony Brown
Sol Majteles
John Strong (Resigned 15 January 2019)

Particulars of each director's experience and qualifications are set out later in this report.

**Principal activity**
The Company was founded in Chicago, USA in 2013 and built a strong base of recurring subscription revenue, with incredible potential for future growth.

Scout Security Limited (ASX: SCT) sells the Scout Alarm, a self-installed, wireless home security system that is making security more modern, open and affordable. Scout's design-centric offering gives users complete flexibility around connected home security, allowing the system to integrate with other best-in-class connected home devices and offering flexible monthly subscriptions. The system forms part of the "Internet of Things" (IoT), and its success to date in the large US market validates that the Company is providing a solution to an unmet need: flexible home security.

**Financial results**
The financial results of the Company for the 12 months ended 30 June 2019 and 30 June 2018 are:

| | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Cash and cash equivalents ($) | 365,314 | 269,616 |
| Net assets ($) | 165,211 | 427,730 |
| Total revenue ($) | 2,908,067 | 1,893,009 |
| Net loss after tax ($) | (3,634,170) | (3,950,539) |

**Review of Operations**

***Results***
For the year ended 30 June 2019, the Company incurred a net loss from continuing operations of $3,634,170, and a net cash outflow from operating activities of $2,933,939. The Company may need to raise additional capital and/or negotiate extended terms with key creditors in order to meet working capital requirements and execute its expansion plans in the event that sufficient revenue is not generated in the normal course of business.

Scout is progressing on its path to generating positive cash flow from operating activities, having reduced its net operational cash outflow by more than $2.5 million in FY19 compared to FY18.

***Sales***
Scout's sales continued to gain momentum during the year as the Company maintained full stock levels, actively advertised through digital marketing channels and began to gain traction with white label partnerships. The Company achieved revenue of $2,908,067 in FY19, representing growth of more than 53% compared to FY18.

The Company's cash receipts significantly rebounded in FY19, with $3,529,124 in receipts representing growth of 87% compared to the prior year.

***Scout growth strategy and drivers***
Scout is favorably positioned as one of the few remaining independent smart home security platforms in the market with advantageous growth dynamics. The Company's growth strategy is focused on three distinct areas: direct-to-consumer, new devices and white label.

***Direct-to-consumer*** – Prosegur's investment in the Company in the first half of FY19 enabled direct-to-consumer marketing efforts which drove meaningful sales in the second half of the year. This helped to reduce customer acquisition costs and to identify new methods of acquiring users. Scout is experimenting with a variety of new marketing channels and finding new pockets of users that fit with the Scout solution.

***New devices*** – Scout has bolstered its security suite with the addition of a keypad, video doorbell and select new devices and integrations. The Company expects these additions to provide new revenue streams from initial hardware sales through to recurring subscriptions. Most importantly, new devices ensure Scout customers have an end-to-end, curated security solution.

***White label*** – The white label program is a key plank in Scout's growth strategy and the Company's white label partners offer trusted branding, global distribution, operational momentum and a loyal customer base that can create an immediate impact on scale. Scout's partners view the Company as complementary to their core business. Scouts key resale partner Zego has deployed thousands of systems to date, while the Company expects well-known multi-billion-dollar partners, Prosegur and Stanley Black & Decker (detailed below), to add meaningfully to this scale in the year ahead.

***Scout partners with industry giants to improve access to global markets***
Across the year Scout secured two well-known multi-billion-dollar partners: Stanley Black & Decker and Prosegur.

In December 2018, Scout secured a strategic partnership with multinational security company Prosegur Compania de Seguridad S.A (BMAD: PSG "Prosegur") who agreed to invest up to US$5.3 million in the Company (AUD$ 7.4 million, based on an agreed exchange rate of US$1: AUD$ 0.71). The investment from Prosegur has empowered Scout to ramp up its paid marketing efforts and execute against growth plans.

The investment was structured by way of a placement of 10,837,368 shares at an issue price of AUD$0.275 per share to raise approximately AUD$ 2.9 million and a contemporaneous issue of 16,005,508 options to acquire shares (exercisable at AUD$ 0.28 on or before 31 December 2019).

Under the strategic partnership, Prosegur anticipates distributing Scout's full suite of branded security products into Prosegur's key security markets in Europe and South America.

Scout and Prosegur also entered into a significant commercial agreement under which they agreed to negotiate a formal arrangement over the subsequent 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 anticipated that Prosegur will provide Scout access to a range of opportunities and strategic services that will benefit the Company.

Prosegur is a global leader in security services with more than 175,000 employees and active in the manned guarding and technology, cash-in-transit, and alarms business through Prosegur Security, Prosegur Cash, and Prosegur Alarms.

Scout also signed a significant partnership deal with Stanley Black & Decker, Inc. (NYSE: SWK) to license Scout's home security platform and hardware suite.

Stanley Black & Decker is the second largest provider of security services in the world and as a trusted leader in electronic security, the company protects over 500,000 buildings around the world. Stanley Black & Decker's portfolio of companies spans Stanley, Stanley Security, Black & Decker, Dewalt, Craftsman, Mac Tools, Lenox, Sonitrol and several other well-known household brands.

The partnership grants Stanley Black & Decker the right to deploy the Scout software platform and hardware suite across their brands and security business units, globally. Under the agreement, Stanley Black & Decker paid Scout a prepaid license fee of AUD408,000($300,000 USD).

Several of Stanley Black & Decker's business units operate in the security industry and provide solutions for residential, commercial, alarm dealer and monitoring centre customers. These are all segments in which Scout targets opportunities in and has developed a robust product set built on its do-it-yourself software platform.

The two parties have identified numerous short-term and long-term potential applications of the Scout platform to augment Stanley Black & Decker's existing and planned customer solutions. The partnership started contributing to Scout's revenue in the March 2019 quarter, with Stanley Security placing an initial purchase order for Scout equipment during the December 2018 quarter.

***Updated partnership agreement with key resale partner Zego***

Scout signed an updated partnership agreement with Zego, its key resale partner, in May 2019. Zego is a leading US provider of smart home device and service packages to apartment residents and managers.

Zego and Scout entered a sales partnership on 11 October 2017 for an initial 12-month period with Zego ordering more than 7,000 systems from Scout. Under the partnership, Zego and Scout have worked together toward a rollout of Scout's full product and service suite.

With the rate of order flow and deployment exceeding both parties' expectations, the parties updated the terms of their partnership agreement to see Zego continue to purchase Scout hardware (Scout hubs) through purchase orders, with Zego to pay Scout a monthly fee based on the number of Zego customers with hubs connected to Scout interactive services during the prior month. The revised agreement has started to deliver ongoing subscription revenue to Scout.

Under the agreement, Scout has agreed not to work with select Zego competitors in exchange for Scout becoming the exclusive provider of home security services offered by Zego.

Zego was recently acquired by PayLease, a leading payments company in the US which offers online payments, resident billing and utility expense management tools to property management companies and serves more than 4,500 property management companies and 12.5 million units nationwide. In light of this acquisition, Scout believes that the partnership will provide increased opportunity for the Company heading into the future.

**Product development**

The Company's home security devices and best-in-class IoT integrations create a truly modern connected home ecosystem. Scout's hardware is a vehicle to connect users to monthly subscriptions for software and back-to-base monitoring services.

With the DIY market expanding rapidly on a global scale, Scout is one of the few independent DIY platforms remaining for enterprise partners. In conjunction with the Company's partners Scout continues to expand its white label capabilities to be increasingly flexible, versatile and feature rich.

During FY19, Scout bolstered its security suite with the addition of a keypad, video doorbell and select new devices and integrations which enrich Scout's DIY smart security suite.

In July 2019, Scout launched and achieved first sales of the Scout Video Doorbell. The Video Doorbell records in clear 1080 HD in all lighting conditions through a wide, 180º field of view, and allows customers to monitor their home from their front door through a live feed and recorded clips via the Scout app.

Customers are also able to trigger their security system's siren, request police dispatch and start two-way audio and pre-recorded messages while viewing the live feed.

The new product caters to the fast-growing market of US consumers who want a network-connected security video doorbell as part of their smart home security service.

First sales of the Video Doorbell were generated through marketing to Scout's existing user base and through the Company's recently upgraded online store, on Amazon.com sales and white-labelling options are expected to follow.

Scout expects the Video Doorbell to act as a gateway device which encourages and motivates consumers to purchase Scout's complete home security system. Across the US, 35% of smart homeowners operate their device as part of an ecosystem, highlighting the importance of integration as a selling proposition.[1]

Post year-end, Scout launched a new highly-request home security product, the Scout Keypad, designed to empower consumers with more flexible control of their home security systems.

The Scout Keypad allows users to physically arm and disarm their security system and works in tandem with the Scout mobile app when the user is remote. The Company previously achieved this through sales of the Scout Door Panel, but will be replacing the door panel to address growing consumer demand for a keypad.

The Company's upgrading of the existing door panel to the keypad has brought familiarity to arming and disarming and has lowered the Company's cost of goods sold and helped to streamline the supply chain by not owning the hardware design.

Following the launch of the Scout Keypad in July 2019, the Company's app was updated to allow users to purchase the Scout Keypad, the high definition 1080p Scout Camera, the Video Doorbell or complete security system, with each product able to be operated independently or jointly.

The app now allows unbundled purchases for the first time, and with research indicating twice as many consumers intend to purchase a stand-alone security product than a professionally monitored system[1], the app encourages flexible adoption of the Company's product suite. Users are now able to seamlessly buy and install products and operate them jointly or independently.

**Marketing campaign push and expansion of online presence**
Scout has engaged in a strong marketing push across 2019, with the Company refining its message to consumers and overhauling its online presence.

The Company's strong marketing push was supported by Scout's strategic partnership and investment by Prosegur.

In January 2019, Scout launched a revamped and improved website in anticipation of significantly ramping direct-to-consumer marketing spend and strong sales growth. The all new website www.scoutalarm.com has been modernised to be more flexible for marketing purposes and is also integrated with the Shopify e-commerce platform. The site provides optimisations that the Company believes will save on development costs.

Scout also revamped its profile listings on Amazon, which is expected to boost sales throughout the Amazon platform as the year progresses. Scout has achieved and maintained a customer rating of more than 4 stars.

**Streamlining of the supply chain**
In the second half of FY19, Scout took action to streamline its supply chain and extract a competitive advantage by avoiding newly imposed tariffs levied on goods for the USA manufactured in China.

The Company has moved branded and white label production to Taiwan with the last batch of Scout hardware produced in China in January 2019. Scout incurred approximately US$10,000 in tariffs when importing these goods into the USA under the new regulations, but all future productions will now be completed in Taiwan and will be unaffected and avoid the ongoing trade negotiations between the USA and China.

Moving production to Taiwan has been achievable as the Scout white label platform was designed since inception specifically to be a hardware agnostic platform. Should tariffs become an issue in Taiwan, Scout retains the flexibility of porting its software platform to a wide variety of hardware being produced in numerous locations globally.

**Trade shows and exhibitions**

[1] Parks Associates, 2019

Scout's co-founder and CTO, Dave Shapiro, participated in a panel discussion entitled "DIY Disrupting Home Security" at the 23rd Annual CONNECTIONS conference in San Francisco, California in May 2019. Scout CEO Dan Roberts and Head of Sales Noah Ney also attended the conference.

CONNECTIONS is the premier connected home conference in the US and is focused on identifying and promoted the use cases and emerging business models that successfully engage consumers and grow revenues in the converging IoT industries. More than 650 Executives from the connected entertainment, IoT, and smart home industries participated.

Dan Roberts, Dave Shapiro and Noah Ney also attended the 2019 CES consumer electronics trade show in Las Vegas, Nevada in January 2019. CES brought together the leaders in consumer technologies and manufacturers, and suppliers of consumer technology hardware and was host to 180,000 attendees, 4,000 exhibiting companies and 600 start-ups.

**Outlook**

Scout is well positioned to take advantage of significant opportunities and expects to see continued strong growth from the Company's white label program. The combination of increased direct-to-consumer marketing, white label partner sales, pipeline of potential new partners and international expansion opportunities underpin the Company's positive growth outlook.

Scout is looking to secure an additional one or two top-tier partners each year, which should open attractive new paths to market for the Company and ideally strategic partnerships whose benefits extend far beyond the immediate commercial offerings.

Global DIY home security systems revenue is expected to grow at 31% a year to US$42.3 billion by 2025 according to Research and Markets (Feb. 2019). The Company expects the DIY market to continue to grow, fuelled by developments in, and widespread adoption of, wireless communications and the Internet of Things (IoT), and the Company expects to gain share and grow revenue in this expanding market.

**Working capital facility**

In September 2018, Scout gained accessed to a working capital facility to improve inventory turnover and grow the Company's white label platform.

The $500,000 working capital facility supported Scout's general operational expenditures to allow the Company to boost inventory orders, increase turnover and drive expansion in its white label connected security platform. The working capital facility has been repaid and this was enabled by Prosegur's equity investment.

In August 2019, Scout secured a new working capital facility of up to AUD$1 million to facilitate business growth. The working capital facility is available in two separate tranches, providing access to AUD$500,000 immediately and the ability to draw down another AUD$500,000 during the term of the facility.

The working capital will give Scout flexibility to continue to pursue growth opportunities in both the direct-to-consumer and white label markets, while supporting the Company's operational expenditures in the first half of FY20.

**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 settlement of liabilities in the normal course of business.

For the year ended 30 June 2019, the Group incurred a net loss of $3,634,170 (2018: $3,950,539) and experienced net cash outflows from operations of $2,933,939 (2018: $5,479,482). At 30th June 2019, the Group had a cash balance of $365,314.

The ability of the Group to continue as a going concern is dependent on the Group securing additional debt and/or equity funding, negotiating extended terms with key creditors in order to meet working capital requirements, and/or executing its near and medium term plans for expansion of its product portfolio in the event that sufficient revenue is not generated in the normal course of business.

These conditions indicate the existence of a material uncertainty that may cast a significant doubt about 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 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:

- In August 2019, the Group secured loan funding for an amount of up to $1,000,000, of which $500,000 has been drawn as at the date of this report.

- A strategic partnership with Prosegur, who have made a capital investment of $2,980,276 in December 2018 into the business. 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. There is no certainty however that these will be converted.

- 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.

- The Company's track record of securing additional funding when required for working capital or expansion purposes.

- Scout's track record to date of selling home security systems and related system over the past five years in the US market and the expected and budgeted growth of such sales.

- Forecasted sales growth from existing and recently announced white label partners expanding commercialisation efforts both in the United States and Internationally.

- 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 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.

**CORPORATE**

Significant changes in state of affairs
There were no significant changes in the company's state of affairs that occurred during the financial period, other than those noted above.

**Environmental regulation**
The Company's operations up to 30 June 2019, and the date of this report, are not regulated by any significant environmental regulation laws.

**Dividends paid, recommended and declared**
No dividends were paid or declared since the start of the period. No recommendation for payment of dividends has been made.

**Indemnification and insurance of officers**
The Company has paid premiums to insure each of the current and former Directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

The Company has not given any further indemnity or entered into any other agreements to indemnify, or pay or agree to pay insurance premiums.

**Indemnification of auditors**
No indemnities have been given or insurance premiums paid, during or since the end of the period, for any person who is or has been an auditor of the Company.

**Proceedings on Behalf of Company**
No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

**Information Relating to Directors and Company Secretary**

| | |
|---|---|
| **Daniel Roberts** | Executive Director |
| Qualifications and Experience | B.Sc, MDes<br><br>Daniel received a Bachelor of Science in Business Administration from Ohio State University, with a double major in Marketing and Logistics. Daniel also holds a Master of Design (MDes) from the Institute of Design at the Illinois Institute of Technology. His professional life spans work experience in each of these areas, having worked in sales, logistics, as a design consultant and a founder-in-residence.<br>Prior to Scout, Daniel worked as a Founder-in-Residence at Sandbox Industries, a startup incubator in Chicago. During his time at Sandbox, Daniel was charged with overseeing every aspect of starting and running companies on behalf of Sandbox and the incubation team. His responsibilities included initial market research, concept development, financial modelling, design strategy, prototyping, pitching, project management and fundraising. It was during this time that he honed his skills for starting and scaling new ventures. Also, while at Sandbox, Daniel met David Shapiro and the two started working together professionally.<br>Prior to graduate school, Daniel worked for MAYA design as a design consultant, working on design-related projects for Fortune 500 companies. He also spent two years as a Sales Account Executive with Total Quality Logistics, where he gained a depth of knowledge in supply chain operations. |
| Interest in Shares | 7,943,397 Ordinary Shares<br>18,000,000 Performance Shares |
| Special Responsibilities | Chief Executive Director |
| Directorships held in other listed entities during the three years prior to the current year | Nil |

| | |
|---|---|
| **David Shapiro** | Executive Director |
| Qualifications and Experience | B.Sc<br><br>David received a Bachelor of Science and Arts in computer science from Miami University of Ohio.<br>Prior to Scout, David worked at Sandbox Industries in Chicago, Illinois as a lead developer. Similar to his role at Scout, David was responsible for overseeing and implementing the creation of technology stacks for the various projects he worked on during his time at Sandbox.<br>Prior to Sandbox, David worked at JPMorgan Chase as a software engineer. His role primarily focused on application development for Private Client Services within the Asset and Wealth Management group at JPMorgan Private Bank.<br>He also spent two years as a Sales Account Executive with Total Quality Logistics, where he gained a depth of knowledge in supply chain operations. |
| Interest in Shares | 7,747,861 Ordinary Shares<br>18,000,000 Performance Shares |
| Special Responsibilities | Chief Technology Officer |
| Directorships held in other listed entities during the three years prior to the current year | Nil |
| **Anthony Brown** | Non-Executive Director |
| Qualifications and Experience | GAICD<br><br>Anthony has been involved in the electronic security industry for over 25 years, with a career that spans all facets of the security industry, from the mechanical, physical, electronic, cyber and logical areas.<br>Anthony currently consults to major organisations in Australia and the Asia Pacific, with prior positions held being as the company owner of a systems integration business that was sold to Schneider Electric, general manager of several successful organisations and as the regional director for critical infrastructure for Smiths Detection.<br>During Anthony's leadership, his organisations have delivered large multi-faceted projects, won major awards for product sales and system installations within Australia and the Asia Pacific.<br><br>Anthony is a high-energy leader with entrepreneurial flare, excellent communication skills and a passionate commitment to professionalism at all levels of an organisation. |
| Interest in Shares | 2,669,689 Ordinary Shares |
| Interest in Options | 2,000,000 Options |
| Special Responsibilities | Nil |
| Directorships held in other listed entities during the three years prior to the current year | Nil |

| | |
|---|---|
| **Soloman Majteles** | Non-Executive Director |
| Qualifications and Experience | LLB (WA), FAICD<br><br>Mr Majteles is a commercial lawyer and has been in private legal practice since 1972. He has over 40 years' experience in business, corporate, property and commercial law. Since 1983 he has been a director of a number of public listed companies operating in the mining and exploration sector (gold, base metals, coal, uranium, oil and gas) and in the biotech and technology sectors.<br>Mr Majteles was previously a director of Australian Gaming & Entertainment Ltd, (AG&E), having been appointed as a director on 31 January 2011. In early 2014 AG&E sought to fund the purchase of a portfolio of hotels in Sydney, New South Wales through an initial public offer of shares to raise $80 million. The IPO was unsuccessful which resulted in the directors having to place the company into voluntary administration in April 2014. The creditors of the company subsequently resolved to appoint a liquidator to the company in July 2014. |
| Interest in Shares | 650,000 Ordinary Shares |
| Interest in Options | 2,000,000 Options |
| Special Responsibilities | Nil |
| Directorships held in other listed entities during the three years prior to the current year | Metals Australia Ltd – Non-Executive director<br>Thred Ltd – Non-Executive director |
| **Past Directors who resigned during the year** | |
| **John Strong – Resigned 15 January 2019** | Non-Executive Chairman |
| Qualifications and Experience | B.Sc<br><br>John received his Bachelor of Political Science from the University of New Mexico.<br>Preceding his involvement with Scout, John, worked as a prolific angel investor (VC) with a 25 company startup portfolio. One of the companies experienced a successful merger, while the remaining majority recently accomplished efficacious series A/B rounds.<br><br>Prior to angel investing, John started and operated an extremely lucrative art business selling $150M USD in historic western art over a 10-year period. The experience collected from the art industry assisted him to develop the necessary skillset to cofound an accelerator in the Irvine startup scene, as social media platform for small business and entrepreneurs. Additionally, John intimately worked with founders on technology-based projects both in hardware and software with companies such as Altered Reality, Matterfab, Chec, and Particle to assist in the development process and marketing solutions.<br><br>John's collective understanding in the technology space positions him to be an invaluable asset to the board of Scout moving forward with expansion post-IPO. |

| | |
|---|---|
| | John is currently a director of Adaptive Medias Inc., Combo Trip LLC and Derma-Tec LLC (New Mexico). |
| Special Responsibilities | Chairman |
| Directorships held in other listed entities during the three years prior to the current year | Nil |

**COMPANY SECRETARY**

**Mr Stuart Usher**
Qualifications: MBA, BBus, CPA, AGIA, ACIS
Mr Usher is a CPA and Chartered Company Secretary with 20 years' extensive experience in the management and corporate affairs of public listed companies. He holds a Bachelor of Business degree and an MBA from the University of Western Australia and has extensive experience across many industries focusing on Corporate & Financial Management, Strategy & Planning, Mergers & Acquisitions, and Investor Relations & Corporate Governance.

**Meetings of Directors**
During the financial period, 7 meetings of directors (there were no committees of directors) were held. There were also 4 circular board resolutions. Attendances by each director during the period were as follows:

| | **Directors meetings** | |
|---|---|---|
| **Directors** | **Meetings Eligible to Attend** | **Meetings Attended** |
| John Strong (Resigned 15-Jan-19) | 4 | 4 |
| Daniel Roberts | 7 | 7 |
| David Shapiro | 7 | 6 |
| Anthony Brown | 7 | 7 |
| Sol Majteles | 7 | 7 |

**Remuneration Report (Audited)**
This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company for the year ended 30 June 2019. The information contained in this report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The information provided includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the financial report.

This remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether Executive or otherwise) of the parent company, and includes those Executives in the Parent and the Group receiving the highest remuneration.

**1 Principles used to determine the nature and amount of remuneration**
The objective of the Company's Executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered.
The framework aligns Executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that Executive reward satisfies the following key criteria for good reward governance practices:

(i) competitiveness and reasonableness;
(ii) acceptability to shareholders;
(iii) performance linkage / alignment of Executive compensation;
(iv) transparency; and
(v) capital management.

The Company has structured an Executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' and program participants' interests:
(i) focuses on sustained growth in shareholder wealth;
(ii) attracts and retains high calibre Executives;
(iii) rewards capability and experience; and
(iv) provides a clear structure for earning rewards.

***Remuneration Governance***
Fees and payments to directors and key management personnel reflect the demands and responsibilities of the positions and are in line with the general market and the financial condition of the Company. There are no minimum or maximum amounts. There is no remuneration committee. Non-Executive directors' fees are determined within an aggregate directors' fee pool limit, which will be periodically recommended for approval by shareholders. There currently is no approved remuneration limit as per the Company's constitution and will be adopted by ordinary resolution of the shareholders at the annual general meeting. The entire board which comprises four directors are responsible for remuneration packages. The Directors believe this is satisfactory given the size and complexity of Company operations.

***Use of Remuneration Consultants***
Remuneration consultants were not used in the establishment of remuneration packages in 2019.

***Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration***
In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive compensation is separate and distinct.

*Non-Executive Directors' Remuneration*
Non-Executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time. Any newly appointed Non-Executive Directors will serve in accordance with a standard service contract, drafted by the Company's lawyers, which sets out remuneration arrangements. There are no termination or retirement benefits for non-Executive Directors (other than for superannuation for one Australian Non-Executive Director). Non-Executive Directors may be offered options as part of their remuneration, subject to shareholder approval.

*Executive Remuneration*
Senior Executives, including Executive Directors, are engaged under the terms of individual employment contracts. Such contracts are based upon standard terms drafted by the Company's lawyers. Executive Directors do not receive any directors' fees in addition to their remuneration arrangements. Base salary/consulting fees are set to reflect the market salary for a position and individual of comparable responsibility and experience. Base salary/consulting fees are regularly compared with the external market and during recruitment activities generally. It is the policy of the Company to maintain a competitive salary structure to ensure continued availability of experienced and effective management and staff.

***Voting and comments made at the Company's 2018 Annual General Meeting (AGM)***
The Company received 12,337,047 votes against its remuneration report for the 2018 financial year representing 26% of the total proxies voted on the resolution and there was no specific feedback at the AGM or throughout the year on its remuneration policies.

## 2 Details of Remuneration
The key management personnel of the Company during the period were:

| Directors: | Position: | Date Appointed | Date Resigned |
|---|---|---|---|
| John Strong | Non-Executive Chairman | 22 August 2017 | 15 January 2019 |
| Daniel Robert | Executive Director and CEO | 22 August 2017 | - |
| David Shapiro | Executive Director and Chief Technology Officer | 22 August 2017 | - |
| Anthony Brown | Non-Executive Director | 22 August 2017 | - |
| Sol Majteles | Non-Executive Director | 22 August 2017 | - |

## 3 Non-Executive Director Remuneration
The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. It is the policy of the Company to compensate Directors in share-based payments through the issue of Options and cash based remuneration (subject to any necessary Shareholder and regulatory approvals).

<u>Service Contracts</u>

*Non-Executive Directors*
The key terms of the Non-Executive Director letters of appointment are as follows:

- Term of agreement – ongoing subject to annual review.
- Directors' Fees – the issue of Options on initial appointment.
- There is no notice period stipulated to terminate the contract by either party.

Apart from their duties as Directors, some Non-Executive Directors may undertake work for the Company over and above the specific duties of a Non-Executive Director.

*<u>Executives</u>*
Remuneration and other terms of employment for the Executive Director and Chief Executive Officer and the Chief Technology Officer are formalised in service agreements. Other major provisions of these agreements are set out below:

**Executive Services Agreement – Daniel Roberts and David Shapiro**
Scout has entered into executive employment agreements (**Executive Employment Agreements**) with Daniel Roberts and David Shapiro, dated 28 February 2017, pursuant to which the Company has engaged:
Daniel Roberts as Chief Executive Officer; and
David Shapiro as Chief Technology Officer.

The material terms and conditions of the Executive Employment Agreements are summarised below:

1) **Term:** The Executive Employment Agreements do not contain a fixed term, and will continue in force until terminated in accordance with their provisions.
2) **Remuneration:** Both Daniel Roberts and David Shapiro will be paid an annual salary of US$150,000.
3) **Incentive Programs:** Both Daniel Roberts and David Shapiro will be entitled to participate in employee incentive programs offered by the Company, at the Board's discretion.
4) **Termination:** Scout may at its sole discretion terminate the Employment in the following manner:

(i) by giving not less than one (1) month's written notice if at any time:

(A) the Executive is or becomes incapacitated by illness or injury of any kind which prevents the Executive from performing duties under the Executive Employment Agreements for a period of two (2) consecutive months or any periods aggregating two (2) months in any period of 12 months during the term of the Employment; or

(B) is or becomes of unsound mind or under the control of any committee or officer under any law relating to mental health for a period of two (2) consecutive months

(ii) by giving one (1) month's written notice if at any time the Executive:

(A) commits any serious or persistent breach of any of the provisions contained in the Executive Employment Agreement and the breach is not remedied within 14 days of the receipt of written notice from Scout to the Executive to do so;

(B) in the reasonable opinion of the Board, is absent in, or demonstrates incompetence with regard to the performance of the Executive's duties under this Agreement, or is neglectful of any duties under this Agreement or otherwise does not perform all duties under the Executive Employment Agreement in a satisfactory manner, provided that the Executive:

(I) has been counselled on at least three separate occasions of the specific matters complained of by the Board; and

(II) after each such occasion has been provided with a reasonable opportunity of at least a month to remedy the specific matters complained of by the Board;

(A) the Executive commits or becomes guilty of any gross misconduct; or

(B) refuses or neglects to comply with any lawful reasonable direction or order given to the Executive by Scout which the Executive, after receipt of prior notice, has failed to rectify to the reasonable satisfaction of Scout within 21 business days of receipt of that notice;

(iii) summarily without notice if at any time the Executive is convicted of any major criminal offence which brings Scout or any of its affiliates into lasting disrepute, by giving notice effective immediately and without payment of any salary other than salary accrued to the date of termination or breaches the insider trading provisions of the Executive Employment Agreement; or

(iv) without reason by giving three (3) months' written notice to the Executive and, at the end of that notice period, making a payment to the Executive equal to the Salary payable over a three (3) month period.

The Executive Employment Agreements contain other standard terms and conditions expected to be included in contracts of this nature.

## 4 Remuneration of Directors and Executives

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of Scout Security Limited are set out in the following table:

| 2019 | | Short Term Benefits | | Post-Employment Benefits | Share-Based Payments | | |
|---|---|---|---|---|---|---|---|
| **Key Management Personnel** | **Salary and Fees $** | **Bonus $** | **Non-Monetary $** | **Superannuation $** | **Options[2] $** | **Total $** | **% Performance Related** |
| Daniel Roberts[1] | 209,614 | - | - | - | - | 209,614 | - |
| David Shapiro[1] | 209,614 | - | - | - | - | 209,614 | - |
| John Strong (Resigned 15 Jan 19) | 29,394 | - | - | - | 109,000 | 138,394 | - |
| Anthony Brown | 49,980 | - | - | - | 109,000 | 158,980 | - |
| Sol Majteles | 38,052 | - | - | 3,615 | 109,000 | 150,667 | - |
| **Total** | **536,654** | - | - | **3,615** | **327,000** | **867,269** | - |

(1) Converted from USD to AUD using an average rate for the relevant period
(2) Options issued to Directors have a 2 year vesting period

| 2018 | | Short Term Benefits | | Post-Employment Benefits | Share Based Payments | | |
|---|---|---|---|---|---|---|---|
| **Key Management Personnel** | **Salary and Fees $** | **Bonus $** | **Non-Monetary $** | **Superannuation $** | **Options[2] $** | **Total $** | **% Performance Related** |
| Daniel Roberts[1] | 193,462 | - | - | - | - | 193,462 | - |
| David Shapiro[1] | 193,462 | - | - | - | - | 193,462 | - |
| John Strong | 36,877 | - | - | - | 92,575 | 129,452 | - |
| Anthony Brown | 43,029 | - | - | - | 92,575 | 135,604 | - |
| Sol Majteles | 38,052 | - | - | 3,615 | 92,575 | 134,242 | - |
| **Total** | **504,882** | | | **3,615** | **277,726** | **786,223** | **-** |

(1) Converted from USD to AUD using an average rate for the relevant period
(2) Options issued to Directors have a 2 year vesting period

<u>Shareholdings of Key Management Personnel</u>

The number of ordinary shares of Scout Security Limited held, directly, indirectly or beneficially, by each Director, including their personally-related entities for the year ended 30 June 2019 is as follows:

| Directors | Held at 1 July 2018 | Movement During Year | Change due to appointment/ (resignation) | Held at 30 June 2019 |
|---|---|---|---|---|
| Daniel Roberts | 7,943,397 | - | - | 7,943,397 |
| David Shapiro | 7,747,861 | - | - | 7,747,861 |
| John Strong (Resigned 15-Jan-19) | 4,641,277 | - | (4,641,277) | - |
| Anthony Brown | 1,531,754 | 1,137,935[1] | - | 2,669,689 |
| Sol Majteles | 650,000 | - | - | 650,000 |
| **Total** | **22,514,289** | 1,137,935 | (4,641,277) | **19,010,947** |

(1) Purchase of 250,000 as part of the Placement took place during the year. Balance represents purchases from open market.

Shareholdings of Key Management Personnel (Cont'd)

| Directors | Held at 1 July 2017 | Movement During Year | Change due to appointment/ (resignation) | Held at 30 June 2018 |
|---|---|---|---|---|
| Daniel Roberts | - | - | 7,943,397 | 7,943,397 |
| David Shapiro | - | - | 7,747,861 | 7,747,861 |
| John Strong | - | - | 4,641,277 | 4,641,277 |
| Anthony Brown | - | 300,000 | 1,231,754 | 1,531,754 |
| Sol Majteles | - | - | 650,000 | 650,000 |
| Ananda Kathiravelu | 62,501 | - | (62,501) | - |
| Michael Shaw-Taylor | - | - | - | - |
| John Daniel Moore | - | - | - | - |
| **Total** | **62,501** | **300,000** | **22,151,788** | **22,514,289** |

Option Holdings of Key Management Personnel
The number of options over ordinary shares in Scout Security Limited held, directly, indirectly or beneficially, by each specified Director and specified Executive, including their personally-related entities for the year ended 30 June 2019 is as follows:

| Directors | Held at 1 July 2018 | Granted as Remuneration | Conversion or Expiry of Options | Change due to appointment/ (resignation) | Held at 30 June 2019 | Vested and exercisable at 30 June 2019 |
|---|---|---|---|---|---|---|
| Daniel Roberts | - | - | - | - | - | - |
| David Shapiro | - | - | - | - | - | - |
| John Strong (Resigned 15 Jan 19) | 2,000,000 | - | - | (2,000,000) | - | - |
| Anthony Brown | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 |
| Sol Majteles | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 |
| Ananda Kathiravelu | - | - | - | - | - | - |
| Michael Shaw-Taylor | - | - | - | - | - | - |
| John Daniel Moore | - | - | - | - | - | - |
| **Total** | **6,000,000** | **-** | **-** | **(2,000,000)** | **4,000,000** | **4,000,000** |

| Directors | Held at 1 July 2017 | Granted as Remuneration | Conversion or Expiry of Options | Change due to appointment / (resignation) | Held at 30 June 2018 | Vested and exercisable at 30 June 2018 |
|---|---|---|---|---|---|---|
| Daniel Roberts | - | - | - | - | - | - |
| David Shapiro | - | - | - | - | - | - |
| John Strong | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 |
| Anthony Brown | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 |
| Sol Majteles | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 |
| Ananda Kathiravelu | - | - | - | - | - | - |
| Michael Shaw-Taylor | - | - | - | - | - | - |
| John Daniel Moore | - | - | - | - | - | - |
| **Total** | **-** | **6,000,000** | **-** | **-** | **6,000,000** | **6,000,000** |

The options were issued to Directors on their initial appointment and are not subject to any performance achievement. The options have a two year vesting date from issue date and may not be exercised until the expiry of a two year service period ending on 22 August 2019 which has now been satisfied as at the date of this report.

| Grant date | Expiry Date | Exercise Price | Number Shares Under Option | Value per option at grant date | Vesting Date |
|---|---|---|---|---|---|
| 22 Aug 2017 | 15 Feb 2020 | $0.30 | 6,000,000 | $0.109 | 22 Aug 2019 |

<u>Performance Shares of Key Management Personnel</u>
The number of Performance Shares in Scout Security Limited held, directly, indirectly or beneficially, by each specified Director and specified Executive, including their personally-related entities for the year ended 30 June 2019 is as follows:

| Directors | Held at 1 July 2018 | Granted as Remuneration | Conversion | Change due to appointment/ (resignation) | Held at 30 June 2019 | Vested and exercisable at 30 June 2019 |
|---|---|---|---|---|---|---|
| Daniel Roberts | 18,000,000 | - | - | - | 18,000,000 | - |
| David Shapiro | 18,000,000 | - | - | - | 18,000,000 | - |
| **Total** | **36,000,000** | **-** | **-** | **-** | **36,000,000** | **-** |

| Directors | Held at 1 July 2017 | Granted as Remuneration | Conversion | Change due to appointment/ (resignation) | Held at 30 June 2018 | Vested and exercisable at 30 June 2018 |
|---|---|---|---|---|---|---|
| Daniel Roberts | - | 18,000,000 | - | - | 18,000,000 | - |
| David Shapiro | - | 18,000,000 | - | - | 18,000,000 | - |
| **Total** | **-** | **36,000,000** | **-** | **-** | **36,000,000** | **-** |

The Performance Shares will convert upon satisfaction of any one of the following milestones:

(i) One third (1/3) of all Performance Shares held by the Holder as at the date of issue of the Performance Shares shall convert into an equal number of Shares upon the Company achieving revenue of US$1,500,000 within 6 months following the Issue Date and such revenue is confirmed by the signed attestation of a registered company auditor, or such revenue is properly included in the Company's audited financial statements;

(ii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert into an equal number of Shares upon the Company achieving revenue of US$4,000,000 within 12 months following the Issue Date and such revenue is confirmed by the signed attestation of a registered company auditor, or such revenue is properly included in the Company's audited financial statements; and

(iii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert into an equal number of Shares upon the Company achieving revenue of US$6,000,000 within 18 months following the Issue Date and such revenue is confirmed by the signed attestation of a registered company auditor, or such revenue is properly included in the Company's audited financial statements.

The underlying fair value of the milestones 1, 2 and 3 performance shares was determined to be $0.20 per performance share based on the share price on acquisition date. Management's assessment of the likelihood of conversion milestones, as detailed above, has been deemed 0% for all Performance Shares and as such no share-based payment expense has been recognised. The performance milestone above contains an implicit term that the KMP remains in service at the date of vesting.

*************END OF AUDITED REMUNERATION REPORT*************

**LIKELY DEVELOPMENTS**
Likely developments in the operations of the Group have been disclosed in the Operating and Financial Review section of the Directors' Report.

**CORPORATE GOVERNANCE**
In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Scout Security Ltd support and have substantially adhered to the best practice recommendations set by the ASX Corporate Governance Council. For a detailed analysis of the Company's Corporate Governance Policies, visit the corporate governance section of our website at www.scoutalarm.com.

**SUBSEQUENT EVENTS**
On 26 August 2019, the company entered into an agreement providing access to a working capital facility of up to AUD$1million, available in two tranches. The key terms of the agreement will see Scout receive a first tranche of AUD$500,000 upfront, with each tranche of the facility having a term of 180 days, and a minimum term of 90 days. In the event Scout draws down on the second AUD$500,000 tranche (available 150 days after the first tranche is drawn down), bringing the total to AUD$1 million, the term of the second tranche will be a further 180 days, and a minimum of 90 days. The interest rate will be fixed on each advance at 11.25% per annum, calculated and payable every 30 days after the relevant advance is drawn.

On completion of the first tranche, the lender may, unless an event of default has occurred, elect to receive partial payment (calculated as the difference between interest of 11.25% per annum payable in respect of an advance and the interest that would have been paid in respect of that advance if interest accrued at 6.25% per annum) in the form of 1,000,000 Scout Security Limited (SCT) options, exercisable two years after the date of issue with a strike price of AUD$0.15. Should the Company elect to draw down the second tranche, and the lender has made the election referred to above, the lender will be issued an additional 2,000,000 SCT options, exercisable two years after the date of issue with a strike price of AUD$0.15, upon repayment of that advance with no reduction in the interest rate.

In the event of default by the Company, an additional 5% interest per annum will apply and the Company will be required to issue an additional 5,000,000 SCT shares for each advance that the Company has defaulted in respect of. Further, the Company will be required to issue the 1,000,000 SCT options in respect of the first advance with no corresponding reduction in interest rate.

In the event the Company does not receive shareholder approval for any tranche of shares or options contemplated above, the Company will be required to make a cash payment equal to the greater of the value of the securities that would have been issued to the lender and $50,000 in respect of each tranche of securities that are not issued. In this regard, all issues of shares and options contemplated by the agreement are subject to the prior receipt of shareholder approval, provided that the Company may elect to issue securities using its placement capacity should it have sufficient capacity available at the time.

Other than as stated above, there have been no other matters or circumstances, which have arisen since 30

June 2019 that have significantly affected or may significantly affect the operations and financial position for year ended 30 June 2019.

**AUDITORS INDEPENDENCE DECLARATION**

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 for the year ended 30 June 2019 has been received and can be found on page 24.

**AUDITOR**

Nexia Perth Audit Services Pty Ltd has been appointed as the Company auditor for the financial year ended 30 June 2019 in accordance with Section 327 of the Corporation Act 2001.

**PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied to the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

**SHARE OPTIONS**

*Shares under Option*

As at 30 June 2019, there existed the following unlisted options.

| Date Granted | Expiry Date | Exercise Price | Number Shares Under Option | Vested & Exercisable |
|---|---|---|---|---|
| 22 August 2017 | 15 February 2020 | $0.30 | 6,000,000 | Nil |
| 22 August 2017 | 22 February 2020 | $0.25 | 15,000,000 | 15,000,000 |
| 20 December 2017 | 20 December 2020 | $0.28 | 5,800,000 | 5,800,000 |
| 12 December 2018 | 31 December 2019 | $0.28 | 16,005,508 | 16,005,508 |
| 12 December 2018 | 7 December 2020 | $0.30 | 666,668 | 666,668 |

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

*Performance Shares*

As at 30 June 2019, there existed the following unlisted Performance Shares.

| Date Granted | Expiry Date | Exercise Price | Number | Vested & Exercisable |
|---|---|---|---|---|
| 22 August 2017 | 22February 2019 | Nil | 36,000,000 | - |

Refer to Remuneration Report for details of performance rights issued.

**Audit Services**

During the year the following fees were paid or payable for services provided by the auditors, Nexia Perth Audit Services Pty Ltd and Mueller & Co. LLP. (2018: BDO Audit (WA) Pty Ltd and Mueller & Co. LLP.)

| | Consolidated | |
|---|---|---|
| | 2019 | 2018 |
| | $ | $ |
| *Audit Services* | | |
| Nexia Perth Audit Services Pty Ltd – audit and interim review | 59,500 | - |
| BDO Audit (WA) Pty Ltd – audit and interim review | - | 58,210 |
| Mueller & Co. LLP – audit and interim review | - | 131,499 |
| | **59,500** | **189,709** |

**Non-audit services**
The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.
Details of the amounts paid or payable to the auditor for non-audit services during the year are set out below. The board is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditors independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the board to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

| | Consolidated | |
|---|---|---|
| | 2019 | 2018 |
| | $ | $ |
| *Non-audit Services* | | |
| BDO Advisory (WA) Pty Ltd – Investigating Accountants Report | - | 23,500 |
| | **-** | **23,500** |

This report is made in accordance with a resolution of the Directors on 30 September 2019.

**Dan Roberts**
**Director**
**30 September 2019**

Nexia Australia

**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 audit for the financial year ended 30 June 2019 there have been:

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

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

**Nexia Perth Audit Services Pty Ltd**

**TJ Spooner**
Director

Perth
30 September 2019

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| | Note | 30 June 2019 AUD $ | 30 June 2018 AUD $ |
|---|---|---|---|
| Revenue | 5 | 2,908,067 | 1,893,009 |
| Cost of sales | | (2,307,431) | (1,522,843) |
| Gross profit | | 600,636 | 370,166 |
| Other income | 6 | 2,749 | 622,752 |
| Consulting and professional fees | | (1,191,467) | (1,062,855) |
| Depreciation and amortisation expense | | (1,592) | (6,552) |
| Employee expenses | | (1,408,543) | (1,547,471) |
| Listing fee expense | 20(a) | - | (696,000) |
| Rental costs | | (93,976) | (76,848) |
| Share-based payments | 20(b) | (327,000) | (277,726) |
| Information technology costs | | (192,222) | (162,499) |
| Interest costs | | (34,132) | - |
| Sales and marketing | | (515,320) | (440,425) |
| Impairment of goodwill | 9 | - | (270,599) |
| Shipping and postage | | (19,379) | (28,961) |
| Travel and entertainment | | (92,104) | (86,600) |
| Other expenses | | (361,820) | (286,921) |
| Loss before income tax expense | | (3,634,170) | (3,950,539) |
| Income tax expense | 14 | - | - |
| **Loss for the year** | | **(3,634,170)** | **(3,950,539)** |
| *Items that may be reclassified subsequently to profit and loss* | | | |
| Foreign currency translation (net of tax) | | (19,118) | (44,539) |
| **Total comprehensive loss for the period net of tax** | | **(3,653,288)** | **(3,995,078)** |
| Basic and diluted loss per share (cents) | 21 | (3.18) | (4.32) |

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

| | Notes | 30 June 2019 AUD $ | 30 June 2018 AUD $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 7 | 365,314 | 269,616 |
| Inventory | 8(a) | 935,519 | 878,441 |
| Prepayments | 8(b) | 415,043 | 687,499 |
| Trade Receivables | | 13,076 | 7,996 |
| Other current assets | | 38,779 | 31,724 |
| **TOTAL CURRENT ASSETS** | | 1,767,731 | 1,875,276 |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | | 26,466 | 59,519 |
| **TOTAL NON-CURRENT ASSSETS** | | 26,466 | 59,519 |
| **TOTAL ASSETS** | | 1,794,197 | 1,934,795 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | 1,628,986 | 1,507,065 |
| **TOTAL CURRENT LIABILITIES** | | 1,628,986 | 1,507,065 |
| **TOTAL LIABILITIES** | | 1,628,986 | 1,507,065 |
| **NET ASSETS** | | **165,211** | **427,730** |
| **EQUITY** | | | |
| Issued capital | 11 | 12,179,075 | 9,123,799 |
| Reserves | 12 | 3,281,596 | 2,965,221 |
| Accumulated losses | | (15,295,460) | (11,661,290) |
| **TOTAL EQUITY** | | **165,211** | **427,730** |

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

| | Notes | 30 June 2019 AUD $ | 30 June 2018 AUD $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 3,529,124 | 1,885,013 |
| Payments to suppliers and employees | | (6,465,812) | (7,367,807) |
| Interest received | | 2,749 | 3,312 |
| Net cash used in operating activities | 7(b) | (2,933,939) | (5,479,482) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of fixed assets | | - | - |
| Net cash used in investing activities | | - | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | 3,055,276 | 6,610,500 |
| Share issue costs | | - | (812,273) |
| Interest paid | | (25,639) | - |
| Proceeds of borrowings | | 500,000 | - |
| Repayment of borrowings | | (500,000) | (84,638) |
| Net cash provided by financing activities | | 3,029,637 | 5,713,589 |
| **Net increase in cash and cash equivalents held** | | 95,698 | 234,107 |
| Cash and cash equivalents at the beginning of period | | 269,616 | 35,509 |
| Exchange rate changes on the balance of cash held in foreign currencies | | - | - |
| **Cash and cash equivalents at the end of year** | | 365,314 | 269,616 |

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

| | Share Capital AUD $ | Accumulated Losses AUD $ | Share-Based Payment Reserve AUD $ | Foreign Exchange Reserve AUD $ | Total AUD $ |
|---|---|---|---|---|---|
| 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 year | - | (3,634,170) | - | - | (3,634,170) |
| Foreign currency translation differences | - | - | - | (19,118) | (19,118) |
| **Total comprehensive loss for the year** | - | (3,634,170) | - | (19,118) | (3,653,288) |
| Transactions with owners in their capacity as owners: | | | | | |
| Issue of shares net of costs | 3,055,276 | - | - | - | 3,055,276 |
| Share-based payments | - | - | 335,493 | - | 335,493 |
| **Balance as at 30 June 2019** | **12,179,075** | **(15,295,460)** | **3,249,816** | **31,780** | **165,211** |

| | Issued capital AUD $ | Accumulated Losses AUD $ | Share-Based Payment Reserve AUD $ | Foreign Exchange Reserve AUD $ | Total AUD $ |
|---|---|---|---|---|---|
| Balance as at 1 July 2017 | 5,199,001 | (7,710,751) | - | 95,437 | (2,416,313) |
| *Total Comprehensive Income* | | | | | |
| Loss for the year | - | (3,950,539) | - | - | (3,950,539) |
| Foreign currency translation differences | - | - | - | (44,539) | (44,539) |
| **Total comprehensive loss for the year** | - | (3,950,539) | - | (44,539) | (3,995,078) |
| Transactions with owners in their capacity as owners: | | | | | |
| Issue of shares net of costs | 3,924,798 | - | - | - | 3,924,798 |
| Share-based payments | - | - | 2,914,323 | - | 2,914,323 |
| **Balance as at 30 June 2018** | **9,123,799** | **(11,661,290)** | **2,914,323** | **50,898** | **427,730** |

The Condolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements and notes represent those of Scout Security Limited and its subsidiary for the year ended 30 June 2019.

The financial statements were authorised for issue on 30 September 2019 by the directors of the Company.

**Basis of Preparation**
These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

*Functional and presentation currency*
The functional currency of the Company is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in Australian dollars, which is the entity's functional currency.

**(a) *Principles of Consolidation***
The consolidated financial statements comprise the assets and liabilities of Scout Security Limited and its subsidiaries at 30 June 2019 and the results of all subsidiaries for the year then ended. A subsidiary is any entity controlled by Scout Security Limited. Subsidiaries are all entities (including structured entities) over which the Group has 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.
The financial statements of subsidiaries are prepared from the same reporting period as the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.
All inter-company balances and transactions, including unrealised profits arising from intra-entity transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Investments in subsidiaries are accounted for at cost in the individual financial statements of Scout Security Limited.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period which Scout Security has control.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 3).

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the Consolidated Statement of Financial Position, separately from the equity of the owners of the parent.
Losses are attributed to the non-controlling interest even if that results in a deficit balance.

**(b)** ***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 settlement of liabilities in the normal course of business.

For the year ended 30 June 2019, the Group incurred a net loss of $3,634,170 (2018: $3,950,539) and experienced net cash outflows from operations of $2,933,939 (2018: $5,479,482). At 30th June 2019, the Group had a cash balance of $365,314.

The ability of the Group to continue as a going concern is dependent on the Group securing additional debt and/or equity funding, negotiating extended terms with key creditors in order to meet working capital requirements, and/or executing its near and medium term plans for expansion of its product portfolio in the event that sufficient revenue is not generated in the normal course of business.

These conditions indicate the existence of a material uncertainty that may cast a significant doubt about 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 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:

- In August 2019, the Group secured loan funding for an amount of up to $1,000,000, of which $500,000 has been drawn as at the date of this report.

- A strategic partnership with Prosegur, who have made a capital investment of $2,980,276 in December 2018 into the business. 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. There is no certainty however that these will be converted.

- 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.
- The Company's track record of securing additional funding when required for working capital or expansion purposes.

- Scout's track record to date of selling home security systems and related system over the past five years in the US market and the expected and budgeted growth of such sales.

- Forecasted sales growth from existing and recently announced white label partners expanding commercialisation efforts both in the United States and Internationally.

- 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 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.

**(c) *New, revised or amending Accounting Standards and Interpretations adopted***

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 its operations and effective for the current year.

*AASB 9 Financial Instruments*

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.
New impairment requirements use an 'expected credit loss' ("ECL") model to recognise an allowance. Impairment is measured using a 12 month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition. In which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

*AASB 15 Revenue from Contracts with Customers*

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's Consolidated Statement of Financial Position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

*Impact of adoption*

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 July 2018.
The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

**(d) *Cash and cash equivalents***

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Consolidated Statement of Financial Position.

**(e) *Trade and other payables***

Trade and other payables represent the liabilities at the end of the reporting period for goods and services received by the Company that remain unpaid.

Trade payables are recognised at their transaction price. Trade payables are obligations on the basis of normal credit terms.

**(f) Issued Capital**
Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(g) *Current and non-current classification***
Assets and liabilities are presented in the Consolidated Statement of Financial Position based on current and non-current classification.
An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.
A liability is classified as current when: it is either expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

**(h) *Fair value measurement***
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

**(i) *Borrowings***
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

**(j) *Income tax***
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(k) Financial Investments**
Financial assets (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain significant financing component or if the practical expedient was applied as specified in AASB 15.63.

*Impairment*
The Group recognises a loss allowance for expected credit losses. Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial asset. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial asset.

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the Consolidated Statement of Profit or Loss and other Comprehensive Income.
The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

**(l) *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 the Australian Dollar (AUD). The functional currency of Scout Security Inc. is the United States Dollar.

The 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 Consolidated 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income.

**(m) *Trade & other receivables***
Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

**(n) *Inventories***
Inventories are valued at the lower of cost and net realisable value on a first-in, first-out (FIFO) basis. Cost comprise of purchase and delivery costs, net of rebates and discounts received or receivable. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(o) *Goodwill***
Goodwill represents the excess of cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. When the excess is negative (bargain purchase), it is recognised immediately in profit or loss. Goodwill is not amortised. Instead, Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of Goodwill relating to the entity sold.

**(p) *Revenue Recognition***
*Revenue from sale of goods (30 June 2019)*
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.

*Revenue from rendering of services (30 June 2019)*
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).

*Revenue recognition (30 June 2018)*
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and it is probable that the Company will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer. Revenue from services is recognised when those services have been rendered under an agreement, provided that the amount of revenue can be measured reliably and that it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the normal course of business, net of returns and discounts.

**(q) *Accounts Receivable***
The Company carries its accounts receivable at fair value less any provision for impairment. The receivables are reduced by appropriate allowances for estimated irrecoverable amounts. The allowance is estimated based on the Company's historical bad debt experience, the aging of the receivables and based on management's judgment. Any finance charges earned on open accounts receivable are recognised when received.

**(r) *Prepayments***
Prepaid expenses primarily relate to prepaid inventory orders.

**(s) *Property, Plant and Equipment***
All property and equipment assets are stated at cost less accumulated depreciation.
Depreciation of property and equipment is provided to write off the cost, less residual value, on a straight line basis over the useful life. Machinery and equipment useful lives range between 3 and 7 years. Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.
Gains or losses on disposal are included in profit or loss.

**(t)** ***Share-Based Payments***

The Group has provided payment to service providers and related parties in the form of share-based compensation whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an appropriate valuation model for services provided by employees or where the fair value of the goods or services received cannot be reliably estimated.

For goods and services received where the fair value can be determined reliably the goods and services and the corresponding increase in equity are measured at that fair value. The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each balance date, the entity revises its estimates of the number of options with non-market vesting conditions that are expected to become exercisable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant parties become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

## NOTE 2: ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT OPERATIVE AT 30 JUNE 2019

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

**AASB 16: Leases (applicable to annual reporting periods commencing on or after 1 January 2019)**

AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of a low value are exempt from the lease accounting requirements. Lessor accounting remains similar to current practice.

Based on the information currently available, the Group estimates that it will recognise right-of-use assets within a range of approximately $66,600 to $73,600 on 1 July 2019, and lease liabilities within a range of $69,500 to $76,800. The estimated impact was calculated using a discount rate derived from the incremental borrowing rate when the interest rate implicit in the lease was not readily available.

The Group plans to apply AASB 16 initially on 1 July 2019, using the modified retrospective approach.

Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained profits at 1 July 2019, with no restatement of comparative information. No practical expedients will be applied.

## NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of certain critical accounting judgements and estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. There are no areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements except for the following:

*a) Capital Reorganisation (30 June 2018)*
The acquisition of 100% of the issued capital of Scout Security Inc. by the Company, by way of issuing the shareholders of Scout Security Inc. fully paid shares in the Company, has been determined by management to be a capital reorganisation as the transaction does not meet the definition of a business. Capital reorganisation transactions are a complex area because there is no specific applicable accounting standards to these types of transactions. In the absence of specific guidance, management has used guidance in AASB 108: *Accounting Policies, Change in Accounting Estimates and Errors* (para 10) whereby management has used its judgement in developing and applying a relevant and reliable accounting policy using pre-combination book values to account for this transaction as no substantive economic change has occurred.

*b) Share-based payment expenses*
The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instrument at the date at which they are granted. The fair value of options granted is measured using the Black-Scholes option pricing model. The model uses assumptions and estimates as inputs. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 20.
The Company issued performance shares during the year ended 30 June 2018 based upon the conditions set out in Note 20. The Company follows the guidelines of AASB 2: *Share Based Payments* and takes into account non-market vesting conditions and estimates the probability and expected timing of achieving the performance conditions. 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. For full details of the terms of the performance shares see Note 20.

*c) Reversal of prior year liability (30 June 2018)*
Included in other income for the year ended 30 June 2018 is an amount of $619,440 (USD $ 480,279) relating to the reversal of a liability incurred in 2015/16 for the purchase of inventory units which were sold. The inventory acquired was defective and the units sold were subsequently replaced at the company's expense. As a result, management has determined the remaining liability is not due and payable.

*d) Performance shares*
36,000,000 performance shares were issued to Executives during 2018 which will vest upon achieving certain milestones. The likelihood of achieving these milestones was assessed to be nil probability at 30 June 2019; as a result, no share-based payment expense has been recognised. This assessment will be required to be carried out at each reporting period. Should the milestones vest or the probability of achievement be very likely, then a share-based payment expense will be recognised if the Executives are still employed with the Company at that time.

## NOTE 4: 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.

## NOTE 5: REVENUE

| | Consolidated 2019 $ | 2018 $ |
|---|---|---|
| Product sales | 2,031,755 | 1,084,365 |
| Subscription revenues | 876,312 | 808,644 |
| **Total Revenue** | **2,908,067** | **1,893,009** |

## NOTE 6: OTHER INCOME

| | Consolidated 2019 $ | 2018 $ |
|---|---|---|
| Interest | 2,749 | 3,312 |
| Trade creditors written off (refer Note 3(c)) | - | 619,440 |
| **Total Other Income** | **2,749** | **622,752** |

## NOTE 7: CASH AND CASH EQUIVALENTS

### (a) Reconciliation to cash at the end of the period

| | Consolidated 2019 $ | 2018 $ |
|---|---|---|
| **Reconciliation to Consolidated Statement of Financial Position** | | |
| Cash at bank | 365,314 | 269,616 |
| **Total Cash and Cash Equivalents** | **365,314** | **269,616** |

### (b) Reconciliation of net loss after income tax to net cash flows used in operating activities

| | 2019 $ | 2018 $ |
|---|---|---|
| Profit/(Loss) after income tax for the year | (3,634,170) | (3,950,539) |
| *Adjustments for:* | | |
| Depreciation and amortisation | 1,592 | 65,175 |
| Share-based payments | 335,493 | 277,726 |
| Foreign exchange difference | 37,982 | 10,222 |
| Listing expense | - | 696,000 |
| Impairment of goodwill | - | 270,599 |
| **Changes in assets and liabilities:** | | |
| (Increase)/Decrease in inventory | (57,078) | (625,668) |
| (Increase)/Decrease in prepayments and other assets | 260,321 | (698,519) |
| Increase/(Decrease) in trade and other creditors | 121,921 | (1,524,478) |
| **Net cash flows used in operating activities** | **(2,933,939)** | **(5,479,482)** |

**NOTE 8: INVENTORIES**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| *Current assets* | | |
| (a) Finished goods – at cost | 935,519 | 878,441 |
| Total Inventory | **935,519** | **878,441** |
| | | |
| *Current assets* | | |
| (b) Prepayments – Inventory Orders | 415,043 | 687,499 |
| Total Prepayments – Inventory Orders | **415,043** | **687,499** |

**NOTE 9: GOODWILL**

| | Consolidated | |
|---|---|---|
| | 2019<br>$ | 2018<br>$ |
| Opening balance | - | 260,010 |
| Movement in foreign currency | - | 10,589 |
| Impairment | - | (270,599) |
| **Total** | **-** | **-** |

The goodwill asset was created when Scout Security Inc. was purchased from Sandbox Industries in 2013, with the goodwill being the difference between the purchase consideration and the fair value of identifiable net assets.

Management has undertaken an impairment assessment of its goodwill in accordance with *AASB 136 Impairment of Assets.* The key assumptions for the value in use calculations are those regarding discount rates, growth rates, terminal value, expected revenue to be generated through new sales agreements and direct costs expected to be incurred during the forecast period.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the asset. The growth rates are based on expectations of future revenue contracts entered into and industry growth forecasts. Direct costs are based on past practices and expectations of future changes in the market.

The Directors are confident in relation to the longer term outlook for the business however, given the business is in its early stages of growth, the current losses incurred by the business, and the uncertainty of future results as the business matures, the Directors considered it appropriate to impair the goodwill as at 30 June 2018.

It is the Directors' view that the accounting impairment does not impact the ongoing operations of the business.

**NOTE 10: TRADE AND OTHER PAYABLES**

| | Consolidated | |
|---|---|---|
| | 2019<br>$ | 2018<br>$ |
| Trade payables (1) | 779,454 | 1,025,554 |
| Sundry payables and accrued expenses(2) | 849,532 | 481,511 |
| **Total Trade and Other Payables** | **1,628,986** | **1,507,065** |

(1) Trade payables are non-interest bearing and are normally settled on 30-day terms
(2) Other payables are non-trade payables, are non-interest bearing and have an average term of 1 month.

## NOTE 11: ISSUED CAPITAL & RESERVES

### (a) Movements in Shares

| | # | $ |
|---|---|---|
| | Ordinary Shares | |
| **Issued and Paid Up Capital** | | |
| Fully paid ordinary shares | **119,211,053** | **12,179,075** |

| | | |
|---|---|---|
| **(b) Movements in fully paid shares on issue 30 June 2019** | | |
| Opening balance | **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 |
| **Balance as at 30 June 2019** | **119,211,053** | **12,179,075** |
| **Movements in fully paid shares on issue 30 June 2018** | | |
| Opening balance[1] | **9,903,408** | **5,199,010** |
| Less: adjustment for continuation accounting[1] | (9,903,408) | - |
| Issue of shares to Scout Security Inc.[2] | 69,900,000 | - |
| Issued capital of Scout Security Limited at date of capital reorganisation | 6,875,000 | - |
| Issue of shares in relation to capital raising via public offer | 25,052,500 | 5,010,500 |
| Issue of shares via public placement | 5,333,334 | 1,600,000 |
| Issue of shares to advisors for capital raising services | 962,850 | 192,570 |
| Less: Capital Raising Costs | - | (2,878,281) |
| **Balance as at 30 June 2018** | **108,123,685** | **9,123,799** |

(1) the application of continuation accounting for the acquisition required the value of Scout Security Inc. shares on issue and issued capital balance as at 30 June 2017 as a comparative.
(2) The Company issued 69,900,000 fully paid ordinary shares to Scout Security Inc shareholders for 100% shares outstanding in Scout Security Limited.

| **(c ) Movements in share-based payments reserve:** | **2019** | **2018** |
|---|---|---|
| | **$** | **$** |
| **Opening Balance at the start of the period:** | 2,914,323 | - |
| Expensed | | |
| Issue of 16,005,508 options via share subscription Agreeme | - | - |
| Issue of 666,668 loan options[2] | 8,493 | - |
| Share based payment expense for options issued in the prior period | 327,000 | - |
| Issue of 15,000,000 broker options | - | 696,000 |
| Issue of 6,000,000 director options | - | 277,726 |
| Total expense recognised in profit or loss | 335,493 | 973,726 |
| Costs of capital | | |
| Issue of 15,000,000 broker options | - | 1,044,000 |
| Issue of 5,800,000 options | - | 896,597 |
| Total expense recognised in equity | **335,493** | **1,940,597** |
| **Balance at the end of the reporting period:** | **3,249,816** | **2,914,323** |

(1) 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.

(2) 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 during the financial period.

## NOTE 12: RESERVES

| | Consolidated | |
|---|---|---|
| | 2019 | 2018 |
| | $ | $ |
| Foreign exchange | 31,780 | 50,898 |
| Share-based payments | 3,249,816 | 2,914,323 |
| **Total** | **3,281,596** | **2,965,221** |

Share-based payments reserve is used to recognise:

1) The grant date fair value of options issued to employees but not exercised.
2) The grant date fair value of shares issued to employees.

The following securities were issued as share-based payments during the year.

| 2019 | Value per share/option | Number | Value $ |
|---|---|---|---|
| Loan options | $0.013 | 666,668 | 8,493 |
| Loan Options | $0.00 | 16,005,508 | - |

| 2018 | Value per share/option | Number | Value $ |
|---|---|---|---|
| Broker options | $0.116 | 15,000,000 | 1,740,000 |
| Director options | $0.109 | 6,000,000 | 277,726 |
| Broker Options | $0.1546 | 5,800,000 | 896,597 |
| | | | **2,914,323** |

**Foreign currency reserve includes exchange differences arising on translation of the foreign controlled entity.**

## NOTE 13: FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of deposits with banks and accounts receivable and payable. The Company's activities expose it to a variety of financial risks; market risk (including fair value and interest rate risk), credit risk, liquidity risk, foreign exchange fluctuations, cash flow and interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Risk management is carried out by the board of directors under policies approved by the Board. The board identifies and evaluates financial risks for overall risk management.

### Interest Rate Risk

As the Company has no significant interest-bearing assets other than cash at bank, the Company's income and operating cash flows are not materially exposed to changes in market interest rates.

The risk arises due to changes in interest rates offered by the bank. The risk is managed by seeking alternative quotes from competing banks.

**Interest Rate Risk (continued)**

| **2019**<br>**Financial Instruments** | **Floating interest rate**<br>**$** | **Fixed interest rate**<br>**$** | **Non-interest bearing**<br>**$** | **Total**<br>**$** | **Weighted average effective interest rate**<br>**%** |
|---|---|---|---|---|---|
| *Financial assets* | | | | | |
| Cash assets | 365,314 | - | - | 365,314 | 0.5% |
| Trade and other receivables | - | - | 13,076 | 13,076 | |
| Total financial assets | **365,314** | **-** | **13,076** | **378,390** | |

| **2018**<br>**Financial Instruments** | **Floating interest rate**<br>**$** | **Fixed interest rate**<br>**$** | **Non-interest bearing**<br>**$** | **Total**<br>**$** | **Weighted average effective interest rate**<br>**%** |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Cash assets | 269,616 | - | - | 269,616 | 0.5% |
| Trade and other receivables | - | - | 7,996 | 7,996 | |
| Total financial assets | **269,616** | **-** | **7,996** | **277,612** | |

**Sensitivity Analysis – Interest Rate Risk**
The Company has performed a sensitivity analysis relating to its exposure to interest rate risk at the reporting date. This sensitivity analysis demonstrates the effect on the current period results and equity which could result in a change in interest rates.

| | | Increase 1% | | Decrease 1% | |
|---|---|---|---|---|---|
| **30 June 2019** | **Carrying Amount $** | **Profit $** | **Equity $** | **Profit $** | **Equity $** |
| Cash and cash equivalents | 365,314 | 3,653 | 3,653 | (3,653) | (3,653) |

| | | Increase 1% | | Decrease 1% | |
|---|---|---|---|---|---|
| **30 June 2018** | **Carrying Amount $** | **Profit $** | **Equity $** | **Profit $** | **Equity $** |
| Cash and cash equivalents | 269,616 | 2,696 | 2,696 | (2,696) | (2,696) |

**Liquidity Risk**
Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Company has no long term or short term debt and its risk with regard to liquidity relates to its ability to maintain its current operations prior to the generation of future income streams. The Company's ability to raise equity funding in the market is paramount in this regard. The Company manages liquidity by ensuring that it has at least sufficient cash to meet its budgeted commitments for at least 12 months.

| **As at 30 June 2019** | **Less than 6 months**<br>**$** | **6-12 months**<br>**$** | **1-5 years**<br>**$** | **Over 5 years**<br>**$** | **Total contractual**<br>**$** | **Carrying amount**<br>**$** |
|---|---|---|---|---|---|---|
| Trade and other payables | 1,628,986 | - | - | - | 1,628,986 | 1,628,986 |

**Liquidity Risk (continued)**

| As at 30 June 2018 | Less than 6 months $ | 6-12 months $ | 1-5 years $ | Over 5 years $ | Total contractual $ | Carrying amount $ |
|---|---|---|---|---|---|---|
| Trade and other payables | 1,507,065 | - | - | - | 1,507,065 | 1,507,065 |

**Credit Risk**

The Company has no significant concentrations of credit risk. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings.

| Cash at bank | 2019 | 2018 |
|---|---|---|
| Westpac Banking Corporation – AA | 275,182 | 187,734 |
| US – Oak Bank – Not available | 90,132 | 81,882 |

**Price Risk**

The Company is not exposed to commodity price risk.

**Foreign Currency Risk**

As a result of significant operations in the United States, the Group's Consolidated Statement of Financial Position can be affected significantly by movements in the USD$/AUD$ exchange rates. As at the end of the reporting period the Group's exposure to foreign currency risk is considered immaterial by the Company and therefore no sensitivity analysis has been disclosed.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

**Fair Value Measurement**

(a) Net fair value

The fair values of all financial assets and liabilities of the Group approximate their carrying values. The methods and valuation techniques used for the purpose of measuring fair value of the Company's financial assets are unchanged compared to the previous reporting period.

(b) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

i) Quoted prices in active markets for identical assets or liabilities (level 1)
ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (level 2); and
iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Due to their short term nature, the carrying amount of the financial assets and liabilities at balance date is assumed to approximate their fair value.

| **NOTE 14: INCOME TAX EXPENSE** | **2019 $** | **2018 $** |
|---|---|---|
| **a. The components of tax expense comprise:** | | |
| Current tax | - | - |
| Deferred tax | - | - |
| | **-** | **-** |

## NOTE 14: INCOME TAX EXPENSE

| | 2019 $ | 2018 $ |
|---|---|---|
| **b. The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to income tax as follows:** | | |
| Operating loss before income tax | (3,634,170) | (3,950,538) |
| Income tax benefit calculated at 27.5% | (999,397) | (1,086,398) |
| **Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:** | | |
| Non-deductible expenditure/(non-assessable income) | 230,201 | 389,674 |
| Difference in overseas tax rate | 79,773 | (9,767) |
| Effect of unused tax losses/temporary differences not recognised as deferred tax assets | 689,423 | 706,492 |
| **Income tax** | - | - |
| **c. Unrecognised deferred tax assets:** | | |
| Carry forward revenue losses (Australia) | 51,455 | 20,844 |
| Carry forward revenue losses (Foreign) | 4,261,976 | 2,381,275 |
| Deductible temporary differences | 9,522 | 6,331 |
| US valuation allowance | (4,261,976) | (2,381,275) |
| **Net unrecognised deferred tax** | **60,977** | **27,174** |

The tax benefits of the above deferred tax assets will only be obtained if:

(a) the Company derives future assessable income of a nature and amount sufficient to enable the benefits to be utilised;
(b) the Company continues to comply with the conditions for deductibility imposed by law; and
(c) no changes in income tax legislation which adversely affect utilising benefits.

## NOTE 15: REMUNERATION OF AUDITORS

| **Assurance Services** | 2019 | 2018 |
|---|---|---|
| *Audit Services* | $ | $ |
| Amounts paid/payable to Nexia Audit Services Pty Ltd for audit and review of the financial reports | 59,500 | - |
| Amounts paid/payable to BDO Audit (WA) Pty Ltd (BDO) for audit and review of the financial reports | - | 58,210 |
| Amounts paid/payable to Mueller & Co. LLP (Mueller) for audit and review of the financial reports | - | 131,499 |
| | 59,500 | 189,709 |
| *Non-Audit Services* | | |
| Amounts paid/payable to BDO Advisory (WA) Pty Ltd (BDO) for work on the Investigating Accountants Report | - | 23,500 |
| | - | 23,500 |

## NOTE 16: INTERESTS IN CONTROLLED ENTITIES

The Company has the following subsidiaries:

| Name of Subsidiary | Country of Incorporation | Class of Shares | Percentage held 2019 | Percentage held 2018 |
|---|---|---|---|---|
| Scout Security Inc | USA | Ordinary | 100% | 100% |

## NOTE 17: RELATED PARTY TRANSACTIONS

a) *Parent and Ultimate Controlling Party*

The parent entity and ultimate controlling party is Scout Security Limited.

*b) Related Party Compensation*

**Compensation of key management personnel of the Group**

| | 2019 $ | 2018 $ |
|---|---|---|
| Short-term employee benefits | 536,654 | 504,882 |
| Post-employment benefits | 3,615 | 3,615 |
| Share-based payments | 327,000 | 277,726 |
| **Total compensation paid to key management personnel** | **867,269** | **786,223** |

The amounts disclosed in the table are the amounts recognised as an expense during the period related to key management personnel.

*c) Shares and Options held by Directors and Key Management Personnel*

Information on remuneration and shares and options held by Directors and Key Management Personnel is contained in the Remuneration Report within the Directors' Report.

**NOTE 18: CONTINGENT LIABILITIES**

The Company had no contingent liabilities as at 30 June 2019.

**NOTE 19: EVENTS SUBSEQUENT TO REPORTING DATE**

On 26 August 2019, the Company entered into an agreement providing access to a working capital facility of up to AUD$1million, available in two tranches. The key terms of the agreement will see Scout receive a first tranche of AUD$500,000 upfront, with each tranche of the facility having a term of 180 days, and a minimum term of 90 days. In the event Scout draws down on the second AUD$500,000 tranche (available 150 days after the first tranche is drawn down), bringing the total to AUD$1 million, the term of the second tranche will be a further 180 days, and a minimum of 90 days. The interest rate will be fixed on each advance at 11.25% per annum, calculated and payable every 30 days after the relevant advance is drawn.

On completion of the first tranche, the lender may, unless an event of default has occurred, elect to receive partial payment (calculated as the difference between interest of 11.25% per annum payable in respect of an advance and the interest that would have been paid in respect of that advance if interest accrued at 6.25% per annum) in the form of 1,000,000 Scout Security Limited (SCT) options, exercisable two years after the date of issue with a strike price of AUD$0.15. Should the Company elect to draw down the second tranche, and the lender has made the election referred to above, the lender will be issued an additional 2,000,000 SCT options, exercisable two years after the date of issue with a strike price of AUD$0.15, upon repayment of that advance with no reduction in the interest rate.

In the event of default by the Company, an additional 5% interest per annum will apply and the Company will be required to issue an additional 5,000,000 SCT shares for each advance that the Company has defaulted in respect of. Further, the Company will be required to issue the 1,000,000 SCT options in respect of the first advance with no corresponding reduction in interest rate.

In the event the Company does not receive shareholder approval for any tranche of shares or options contemplated above, the Company will be required to make a cash payment equal to the greater of the value of the securities that would have been issued to the lender and $50,000 in respect of each tranche of securities that are not issued. In this regard, all issues of shares and options contemplated by the agreement are subject to the prior receipt of shareholder approval, provided that the Company may elect to issue securities using its placement capacity should it have sufficient capacity available at the time.

Other than as stated above, there have been no other matters or circumstances, which have arisen since 30 June 2019 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2019, of the Company, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 30 June 2019, of the Company.

## NOTE 20: PERFORMANCE SHARES AND OPTIONS

### (a) Performance Shares

During the year ended 30 June 2018, the following performance shares were issued:

- 36,000,000 Performance Shares issued on 22 August 2017 to the incoming CEO and Executive Director, Mr Daniel Roberts and Executive Director, Mr David Shapiro, 18 million each, which convert to ordinary fully paid shares on a one for one basis following the achievement of the performance milestones before the expiry date.

The performance milestones are summarised below:

(i) One third (1/3) of all Performance Shares held by the Holder as at the date of issue of the Performance Shares shall convert into an equal number of Shares upon the Company achieving revenue of US$1,500,000 within 6 months following the Issue Date and such revenue is confirmed by the signed attestation of a registered company auditor, or such revenue is properly included in the Company's audited financial statements;

(ii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert into an equal number of Shares upon the Company achieving revenue of US$4,000,000 within 12 months following the Issue Date and such revenue is confirmed by the signed attestation of a registered company auditor, or such revenue is properly included in the Company's audited financial statements; and

(iii) One third (1/3) of all Performance Shares held by the Holder as at the Issue Date shall convert into an equal number of Shares upon the Company achieving revenue of US$6,000,000 within 18 months following the Issue Date and such revenue is confirmed by the signed attestation of a registered company auditor, or such revenue is properly included in the Company's audited financial statements,

The underlying fair value of the milestones 1, 2 and 3 performance shares was determined to be $0.20 per performance share based on the share price on acquisition date. Management's assessment of the likelihood of conversion milestones, as detailed above, has been deemed 0% for all Performance Shares and as such no share-based payment expense has been recognised. The performance milestone above contains an implicit term that the KMP remains in service at the date of vesting.

### Options

During the year ended 30 June 2019, the following options were issued:

- 166,667 Loan Options issued on 12 December 2018. Details of the assumptions used in the valuation of the options of these options are summarised below:

| Item | Loan Options |
|---|---|
| Number of options | 666,668[(1)] |
| Exercise price ($) | $0.30 |
| Valuation (grant) date | 12 Dec 2018 |
| Expiry date | 7 Dec 2020 |
| Time to expiry (years) | 2.00 |
| Volatility | NA |
| Exercise conditions | Nil |
| Value per option | $0.013 |
| Vesting | 12 Dec 2018 |

(1) 500,001 Options to be approved by shareholders at the upcoming AGM Nov 2019

- 16,005,508 Loan Options issued on 12 December 2018. Details of the assumptions used in the valuation of the options of these options are summarised below:

| Item | Loan Options |
|---|---|
| Number of options | 16,005,508 |
| Exercise price ($) | $0.28 |
| Valuation (grant) date | 12 Dec 2018 |
| Expiry date | 31 Dec 2019 |

| | |
|---|---|
| Time to expiry (years) | 2.00 |
| Volatility | NA |
| Exercise conditions | Nil |
| Value per option | Nil |
| Vesting | 12 Dec 2018 |

**Options (continued)**

During the year ended 30 June 2018, the following options were issued:

- 6,000,000 Director Options issued on 22 August 2017. Details of the assumptions used in the valuation of the options of these options are summarised below:

| Item | Director Options |
|---|---|
| Number of options | 6,000,000 |
| Exercise price ($) | $0.30 |
| Valuation (grant) date | 15 Feb 2017 |
| Expiry date | 15 Feb 2020 |
| Time to expiry (years) | 3.00 |
| Volatility | 100% |
| Exercise conditions | Nil |
| Value per option | $0.109 |
| Vesting | 22 Feb 2019 |

- 15,000,000 Capital Raising Options issued on 22 August 2017. Details of the assumptions used in the valuation of the options of these options are summarised below:

| Item | Options |
|---|---|
| Number of options | 15,000,000 |
| Exercise price ($) | $0.25 |
| Valuation (grant) date | 15 Feb 2017 |
| Expiry date | 22 Aug 2020 |
| Time to expiry (years) | 3.00 |
| Volatility | 100% |
| Exercise conditions | Nil |
| Value per option | $0.116 |

- 5,800,000 Capital Raising Options issued on 20 December 2017. Details of the assumptions used in the valuation of the options of these options are summarised below:

| Item | Options |
|---|---|
| Number of options | 5,800,000 |
| Exercise price ($) | $0.28 |
| Valuation (grant) date | 20 Dec 2017 |
| Expiry date | 20 Dec 2020 |
| Time to expiry (years) | 3.00 |
| Volatility | 100% |
| Exercise conditions | Nil |
| Value per option | $0.1546 |

**(b) Share-Based Payments Expense**

Share-based payments expense at 30 June 2019 is comprised as follows:

| | 30 June 2019<br>$ | 30 June 2018<br>$ |
|---|---|---|
| (a) Share-Based Payment expense | | |
| Issue of 15,000,000 broker options[1] | - | 696,000 |
| | | |
| (b) Director fees | | |
| Issue of 6,000,000 director options[2] | 327,000 | 277,726 |
| Total expense recognised in profit or loss | 327,000 | 277,726 |
| | | |
| Cost of capital | | |
| Issue of 15,000,000 broker options[1] | - | 1,044,000 |
| Issue of 962,850 broker shares (Note 12) | - | 192,570 |
| Issue of 5,800,000 options | - | 896,000 |
| Total expense recognised in equity | - | 2,132,570 |
| **Total share based payments expense** | **327,000** | **3,106,296** |

[(1)]Relates to the 15,000,000 capital raising options issued on 22 August 2017 of which value was allocated between capital raising cost and share-based payment expense relating to listing.

[(2)]The options were issued to Directors on their initial appointment and are not subject to any performance achievement. The options have a two year vesting date from issue date and may not be exercised until the expiry of a two year service period ending on 22 August 2019.

**NOTE 21: LOSS PER SHARE**

| Reconciliation of loss from continuing operations: | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Loss from continuing operations | (3,634,170) | (3,950,539) |
| Weighted average number of ordinary shares outstanding during the period | 114,341,215 | 91,315,757 |
| Loss per share(cents) | (3.18) | (4.32) |

There are currently no dilutive securities on issue and therefore the weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS are the same.

In accordance with a resolution of the directors of Scout Security Limited, the directors of the Company declare that:

1. the financial statements and notes, as set out on pages 25 to 48, are in accordance with the *Corporations Act 2001* and:

   a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
   b. give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the Company; and

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; and

3. the Directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

This declaration is made in accordance with a resolution of the Directors on 30 September 2019 and is signed on behalf of the Directors by:

**Dan Roberts**
**Director**
**30 September 2019**

# Independent Auditor's Report to the Members of Scout Security Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Scout Security Limited (the Company and its subsidiary (the Group)), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial report" section of our report. We are independent of the Group 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* (the Code) that are relevant to our audit of the 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 report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related To Going Concern

We draw attention to Note 1(b) in the financial report, which indicates that the Group incurred a net loss of $3,634,170 during the year ended 30 June 2019 and, as of that date, the net cash outflow from operations was $2,933,939. As stated in Note 1(b), 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 that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Revenue Recognition – Refer note 1(p) and 5**<br><br>Scout Security Ltd adopted AASB 15, Revenue from Contracts with Customers from 1 July 2018. Management made no adjustment on transition and there was no change in accounting policies.<br><br>We focused on this area as recognition of revenue under AASB 15 requires significant judgement by management in identifying performance obligations, allocation of the transaction price to those performance obligations, and identifying when the obligations are settled, at a point either in time or over time.<br><br>AASB 15 also has additional disclosure requirements compared to AASB 118, Revenue.<br><br>The Group has several revenue streams including product sales and subscription sales. The accounting policy and note 5 provide information on how the Company accounts for its revenue. | Our procedures included, but were not limited to the following:<br><br>• We checked the Company's assessment of the impact of the adoption of AASB 15 on all major revenue streams and contracts;<br><br>• We assessed the consistency of the Company's accounting policies in respect of the criteria for revenue recognition prescribed by AASB 15;<br><br>• We read key contracts to assess whether the method for recognition of revenue was relevant and consistent with AASB 15, and had been applied consistently. We focused on the identification of performance obligations, allocation of income to the performance obligations and timing of the transfer of control;<br><br>• We assessed the accuracy of revenue cut-off and completeness of deferred revenue as of year-end;<br><br>• We tested a sample of sales transactions for compliance with the Company's accounting policy and further agreed to revenue reconciliations and bank statements;<br><br>• We recalculated the provision for returns based on company policy; and<br><br>• We traced financial statement disclosure information to accounting records and other supporting documentation. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' responsibility for the financial report

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

In preparing the consolidated financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Report on the Remuneration Report

## Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 21 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Scout Security Limited., for the year ended 30 June 2019, complies with Section 300A of the *Corporations Act 2001*.

## Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Nexia Perth Audit Services Pty Ltd**

**TJ Spooner**
Director

Perth
30 September 2019

## ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

### SHAREHOLDINGS

The issued capital of the Company at 16 September 2019 is ordinary fully paid shares. All ordinary shares carry one vote per share.

QUOTED SECURITIES

**ORDINARY FULLY PAID SHARES AS AT 16 SEPTEMBER 2019**

**TOP 20 SHAREHOLDERS**

| | | No. of Shares Held | % Held |
|---|---|---|---|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LTD | 12,934,296 | 10.85 |
| 2 | DANIEL ROBERTS | 7,943,397 | 6.66 |
| 3 | DAVID SHAPIRO | 7,747,861 | 6.50 |
| 4 | ALEXANDER GERKO | 6,023,997 | 5.05 |
| 5 | BNP PARIBAS NOMINEES PTY LTD | 4,275,643 | 3.59 |
| 6 | AMAZON.COM NV INVESTMENT HOLDINGS LLC | 2,731,592 | 2.29 |
| 7 | JARVISBROWN SUPER PTY LTD <JARVIS BROWN SF A/C> | 2,664,151 | 2.23 |
| 8 | FARRIS CORPORATION PTY LTD <THE PETER FARRIS SUPER A/C> | 2,575,000 | 2.16 |
| 9 | DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/FUND> | 2,566,216 | 2.15 |
| 10 | KINGSLANE PTY LTD <CRANSTON SUPER PENSION A/C> | 2,425,000 | 2.03 |
| 11 | CELTIC CAPITAL PTY LTD <THE CELTIC CAPITAL A/C> | 2,192,308 | 1.84 |
| 12 | CITICORP NOMINEES PTY LTD | 2,029,044 | 1.70 |
| 13 | JAMES MATTOX | 1,737,705 | 1.46 |
| 14 | GRAVITY TANK, INC. | 1,581,684 | 1.33 |
| 15 | ROBBIE HUNT PTY LTD <ROBBIE HUNT FAMILY SUP A/C> | 1,350,000 | 1.13 |
| 16 | CHAD SMITH | 1,324,944 | 1.11 |
| 17 | SANDHURST TRUSTEES LTD <EQUIT INV DRAGONFLY A/C> | 1,164,768 | 0.98 |
| 18 | BARK (NSW) PTY LTD <BARK A/C> | 1,156,000 | 0.97 |
| 19 | GLOBAL MEGACORP PTY LTD | 1,095,375 | 0.92 |
| 20 | BERNARD WILLIAM LIVY & DESMA LEA LIVY <D&B LIVY SUPER FUND A/C> | 1,050,000 | 0.88 |
| | | **66,568,981** | **55.84** |

| **DISTRIBUTION OF SHAREHOLDINGS** | **No. of Holders** | **No. of Shares** |
|---|---|---|
| 1 – 1,000 | 25 | 822 |
| 1,001 – 5,000 | 91 | 283,618 |
| 5,001 – 10,000 | 82 | 714,881 |
| 10,001 – 100,000 | 292 | 12,064,885 |
| 100,001 and over | 150 | 106,146,847 |
| | **640** | **119,211,053** |

Number holding less than a marketable parcel is 134

| **Shareholders by Location** | **No. of Holders** | **No. of Shares** |
|---|---|---|
| Australian holders | 582 | 80,140,743 |
| Overseas holders | 58 | 39,070,310 |
| | **640** | **119,211,053** |

## ASX ADDITIONAL INFORMATION (CONTINUED)

### ESCROW SHARES
There are no shares held in escrow.

### VOTING RIGHTS
In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

### SUBSTANTIAL SHAREHOLDERS AS AT 16 SEPTEMBER 2019

| | |
|---|---|
| DANIEL B ROBERTS | 7,943,397 |
| DAVID SHAPIRO | 7,747,861 |
| ALEXANDER GERKO | 6,023,997 |

UNQUOTED SECURITIES

| Class | | Terms | No. of Perf Shares |
|---|---|---|---|
| 1. Unquoted | Performance Shares | no voting rights attached, conversion to shares on achievement of performance milestones | 36,000,000 |

| Name | Options | % |
|---|---|---|
| Dan Roberts | 18,000,000 | 50 |
| David Shapiro | 18,000,000 | 50 |

### OPTIONS
The Company has the following classes of options on issue at 16 September 2019 as detailed below. Options do not carry any rights to vote.

| Class | | Terms | No. of Options |
|---|---|---|---|
| 1. Unquoted | Options | Exercisable at 30c expiring 22-Aug-2020 | 21,000,000 |

| Name | Options | % |
|---|---|---|
| Armada Capital & Equities Pty Ltd | 3,200,000 | 15.24 |
| Zenix Nominees Pty Ltd | 3,000,000 | 14.29 |
| 16 holders | | |

| Class | | Terms | No. of Options |
|---|---|---|---|
| 2. Unquoted | Options | Exercisable at 40c expiring 20-Dec-2020 | 5,800,000 |

| Name | Options | % |
|---|---|---|
| Armada Capital & Equities Pty Ltd | 3,450,000 | 59.48 |
| Zenix Nominees Pty Ltd | 1,500,000 | 25.86 |
| 3 holders | | |

| Class | | Terms | No. of Options |
|---|---|---|---|
| 3. Unquoted | Options | Exercisable at 28c expiring 31-Dec-2019 | 16,005,508 |

| Name | Options | % |
|---|---|---|
| Prosegur Global Alarmas Row S.L.U. | 16,005,508 | 100 |

| Class | | Terms | No. of Options |
|---|---|---|---|
| 4. Unquoted | Options | Exercisable at 30c expiring 7-Dec-2020 | 166,667 |

| Name | Options | % |
|---|---|---|
| DDM Development Pty Ltd <The DDM Development A/C> | 166,667 | 100 |

Scout Security has used the cash and assets in a form readily converted to cash that it had at the time of admission in a way consistent with its objectives. ASXLR4.10.19