



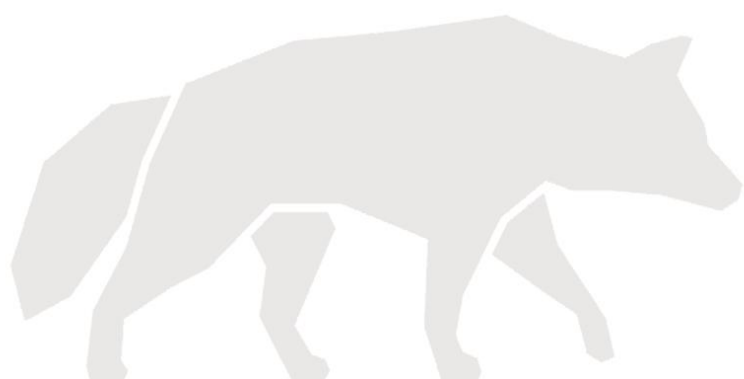
Scout Security Limited

ABN 13 615 321 189

and its controlled entities

ANNUAL REPORT

30 June 2020



Corporate directory**Current Directors**

Mr Daniel Roberts	<i>Chief Executive Officer</i>
Mr David Shapiro	<i>Non-executive Director</i>
Mr Anthony Brown	<i>Non-executive Director</i>
Mr Sol Majteles	<i>Non-executive Director</i>
Mr Martin Pretty	<i>Non-executive Director</i>

Company Secretary

Mr Stuart Usher

Registered Office - Australia

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Website: www.scoutalarm.com

Registered Office – United States

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United States of America

Auditors

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Level 3, 216 St Georges Terrace
PERTH WA 6000

Telephone: +61 (0)8 9226 4500

Solicitors

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

Share Registry

Advanced Share Registry Limited
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NEDLANDS WA 6009

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Website: www.asx.com.au

ASX Code SCT

Bankers

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Directors' report

Your directors present their report on the consolidated entity, consisting of Scout Security Limited (**Scout or the Company**) and its controlled entities (collectively **the Group**), for the financial year ended 30 June 2020.

Scout is listed on the Australian Securities Exchange (ASX:SCT).

1. Directors

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

■ Mr Daniel Roberts	Chief Executive Officer
■ Mr David Shapiro	Non-executive Director
■ Mr Anthony Brown	Non-executive Director
■ Mr Sol Majteles	Non-executive Director
■ Mr Martin Pretty	Non-executive Director (<i>appointed 27 July 2020</i>)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated. For additional information of Directors including details of the qualifications of Directors please refer to paragraph 6 Information relating to the directors of this Directors Report.

2. Company secretary

The following person held the position of Company Secretary at the end of the financial year:

■ Mr Stuart Douglas Usher	
Qualifications	<input type="checkbox"/> B.Bus, CPA, Grad Dip CSP, MBA, AGIA, ACIS
Experience	<input type="checkbox"/> Mr Usher is a CPA and Chartered Company Secretary with 25 years of extensive experience in the management and corporate affairs of public listed companies. He holds 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.

3. Dividends paid or recommended

There were no dividends paid or recommended during the financial year ended 30 June 2020.

4. Significant Changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the financial year ended 30 June 2020 other than disclosed elsewhere in this Annual Report.

5. Operating and financial review

5.1. Nature of Operations Principal Activities

Scout Security Limited (ASX: SCT or the Company) was founded in Chicago, USA in 2013 and spent 7 years building a self-installed, wireless, home security platform. Scout's open, affordable, 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. Scout is an official partner of Amazon Alexa (including Alexa Guard) and Google's Assistant. Scout is also an Amazon Alexa Fund portfolio company.

The platform has proved itself attractive to large, iconic, global brands who have entered into white label partnership agreements with Scout which in the next phase of the Company's development will aid the roll out of systems in the United States and beyond.

Directors' report

5.2. Operations Review

a. Review

FY20 was a transitional year for the Scout business. The emphasis changed from platform development to program scale and, specifically, generating increased white label sales. The Company is happy to report that we did so successfully.

- Receipts from customers has increased 7.45% to AU\$3.12m
- Expenses have been reduced 15.4% to AU\$3.58m
- Whilst as an early stage Company we are reporting a Net Loss of AU\$1.5m, Management notes that it is half of last years' Net Loss of AU\$3.6m

Operating highlights of the year included:

- In July 2019 Scout launched and achieved first sales of its Keypad and Video Doorbell, marketing the product to new and existing customers
- In December 2019 Scout launched the Scout Panic Button, Remote Control and Siren
- In March 2020, Scout announced it was bolstering the white label development team to reflect the change of emphasis from platform building to platform selling with a number of key new hires (detailed below)
- In April 2020, Scout announced an updated partnership agreement with key resale partner Zego Powered by PayLease ("Zego") which resulted in Zego advancing US\$250,000 to Scout in return for a discount on monthly licence fees (the "Zego Pre-payment")
- Post year-end, in early July 2020, Scout announced it had entered into a five-year commercial agreement with strategic partner and shareholder, Prosegur Compañía de Seguridad, S.A. ("Prosegur"). The key terms of the commercial agreement included an upfront US\$500,000 fee to be paid to Scout for licensing rights and an agreement that Prosegur would launch sales of Prosegur branded Scout products in a target market this calendar year

Operational Cashflow Improvements

We are pleased to report that in FY20, the Company

- Achieved its first quarter of positive operating cash flow (to December-19) and
- Reduced its operating cash outflows from AU\$2.9m in FY19 to AU\$520k in FY20

This significant improvement in operating cash flow performance is a trend the Company hopes to extend with the goal of being cash flow positive in calendar year 2020 and into FY21.

The significant reduction in cash outflows demonstrates that even a small number of white label partners can dramatically boost Scout's revenue and cash trajectory whilst building a distribution network for hardware sales and a base of recurring monthly revenue. Management notes, that had the Prosegur transaction closed a couple weeks earlier and the Company could have included the US\$500k (AU\$728k) licence fee in its FY20 cash flow, the year's pro forma cashflow from operations would have shown an inflow of \$204k.

The Company plans to build on FY20's success and expects to announce new commercialisation plans for white label partners and existing partner roll out before the end of CY20.

Revenue from the Company's three key sources are detailed below:

b. Scout White Label Development

c. Hardware Sales

Scout's business model includes the sale of hardware at lower margin with a view to generating higher margin recurring revenue over a longer term. Scout sells hardware direct to customers and through its white label partners.

The arrangements with the white label partners vary. With some partners, sales of hardware is "traditional" in that Scout places orders with its suppliers, and then sells the good to the partners and records the full revenue and cost of goods in its accounts. With other partners, the partner places its order directly with Scout's suppliers and Scout records only the equivalent of the gross profit as revenue. Whilst this means Scouts revenue is lower than in the "traditional" model, the important advantage to Scout is that it does not need to provide any working capital to fund these types orders.

Therefore, management believes that for the purposes of reporting and prior period comparison gross profit on hardware sales will be a key metric and more reflective than revenue in the future.

In FY20 Scout's gross profit on Hardware Sales was AU\$115k (down from AU\$278k in FY19). Hardware Sales were down because large orders were received by Scout late in the FY19 year which were sold by the client through the first part of FY20.

Hardware enables delivery of the Scout platform to subscribers who then pay recurring monthly subscriptions for software and back-to-base monitoring. Hardware sales are therefore a direct driver of recurring revenue.

Directors' report

In FY20 Scout sold over 3500 systems. Since inception, Scout has sold more than 20,000 systems.

Scout holds a positive view for continued growth in hardware sales, based on positive momentum with Zego and in its direct-to-consumer business, and as the Company works toward launches with other white label partners in the US and abroad.

d. Recurring Revenue

Scout derives recurring revenue from licence fees, monitoring fees and video cloud storage fees. In FY20, recurring revenue was AU\$619,507. Scout's monthly recurring revenue continued to grow through FY20 and at the end of June had reached an annualised run rate of A\$720k (US\$516k).

The Company's goal is to for Recurring Revenue to cover the Company's overhead by the close of FY22.

5.3. Corporate

a. Working Capital Facility

In August 2019, Scout entered into an agreement with DDM Holdings Pty Limited providing access to a working capital facility of up to A\$1 million. The Company was able to immediately draw A\$500,000 which was used to pursue expansion opportunities. In February the A\$500,000 tranche was repaid, and the facility closed.

b. Forgivable Loan Under US CARES ACT

In April 2020, Scout was approved by the US Small Business Administration (SBA) to access nondilutive, forgivable funding as part of the Paycheck Protection Program ("PPP"), pursuant to the US Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").

Scout was approved for an unsecured loan of \$141,790 USD (~\$223k AUD), which is due in two years, attracts a fixed annual interest rate of 1% and all payments are deferred for six months; however, interest will continue to accrue over this period.

The loan will be forgiven as long as:

- The loan proceeds are used to cover payroll costs, mortgage interest, rent and utility costs over the eight-week period after the loan is made; and
- Scout maintains its employee and compensation levels.

c. Convertible Notes

After the close of the financial year, in July 2020, Scout announced it had entered into a Convertible Note Deed ("Note") with investors including existing shareholders of the Company, to raise up to \$2 million. The Company has drawn \$750,000 of the note and has a further \$1.25m available which can be drawn subject to certain conditions.

d. Issue of Unquoted Options

In accordance with shareholder approval received at its Annual General Meeting on 29 November 2019, Scout allotted 333,334 "2018 Loan Options" during the March quarter. The 2018 Loan Options were approved to be issued in consideration for a reduced interest rate under the 2018 Loan Deed announced to the ASX on 28 September 2018. The options are unquoted and exercisable at \$0.30 with an expiry of 7 December 2020.

e. Change of Auditor

In February, Scout advised Nexia Perth Audit Services Pty Ltd ("Nexia") had resigned as auditor of the Company, due to the untimely death of Mr. TJ Spooner, who served as the audit partner and main point of contact at Nexia for Scout. Nexia received ASIC consent to resign as auditor of Scout.

Scout completed a review and tender process and appointed Bentleys Audit and Corporate (WA) Pty Ltd ("Bentleys") as auditor of Scout Security Limited to replace Nexia.

Directors' report

5.4. Outlook

Having invested heavily in developing its white label business, Scout is now beginning to capitalise on its strategic position as an independent, DIY platform which can provide enterprise partners a fast, capital-light path to scale.

With several multi-billion-dollar companies aligned to Scout's white label program, the Company firmly believes the model is resonating with the right partners at the right time. The recent partnership deal with Prosegur expands Scout's scope outside of the USA and is a major milestone on the road to becoming a global company operating at global scale.

While the Company works towards launching with Prosegur internationally in CY20, an equally heavy emphasis is being put on launching existing domestic white label partners in the USA and securing additional partners in the US market. Scout's management is of the belief that consumer demand for contact-free, self-installation will spur a significant number of organisations to evaluate their options for entering the do-it-yourself security market and re-evaluate any plans on product or service offerings that have an in-person component.

In CY20 Scout expects to be in a position to announce commercialisation plans for existing partners and multiple new white label partners. The Company is looking forward to expanding its base of active users and delivering growth in upfront and recurring revenue.

With growing concerns about personal safety, particularly in the US, amid trends of fear and uncertainty, Scout expects sales of its DIY security systems to continue to increase as consumers look to hedge against the unknown.

Throughout the home security industry, and more broadly across the consumer-facing parts of the economy, in-person services are reeling from COVID-19 distancing requirements and uncertain consumer sentiment. The Company believes this will drive sustainable demand for contactless options, providing a demand tailwind for Scout's self-installed offering, and observes that businesses with consistent recurring monthly revenues are better positioned to navigate potential ebbs and flows in consumer discretionary spending.

Scout's goal is to be cashflow positive for this calendar year, in FY21 and beyond. We believe this to be achievable, considering:

- Scout development and support fees received since 1 January 2020
- The pipeline of new business identified which spans all stages from inquiry to advanced contract negotiation
- Scout's monthly recurring revenue continues to grow and is expected to accelerate with the Prosegur territory launch and in the US with other white label partners
- Management's goal is to secure multiple additional white label partners and announce their respective commercialisation plans in FY21

Scout's annual overhead is approximately A\$2.7 million, and it is management's goal that recurring revenue grows to match this overhead by the close of FY22. In the interim, management will continue to focus on securing white label partner development fees, generating margin from hardware sales and platform licensing to cover the business' cash burn, in addition to the current base of recurring revenue.

5.5. Financial Review

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Group incurred a loss for the year of \$1,593,246 (2019: \$3,634,170 loss).

The Group's revenue for the year ended 30 June 2020 was recorded at \$3,124,846 as compared with the previous year ended 30 June 2019 which recorded \$2,908,067.

The net assets of the Group have decreased from 30 June 2019 by \$1,578,860 to \$(1,413,649) at 30 June 2020 (2019: \$165,211).

As at 30 June 2020, the Group's cash and cash equivalents decreased from 30 June 2019 by \$303,004 to \$62,310 at 30 June 2020 (2019: \$365,314) and had a working capital deficit of \$1,207,048 (2019: \$138,745 working capital), as noted in Note 22.1.3 Going Concern on page 53. Please refer to the Operations Review above for additional business segment performance.

Directors' report

5.6. Differences to the Quarterly Cashflow Appendix 4C for the quarter ended 30 June 2020

Cash at bank (reference Note 5.1)	62,310
-----------------------------------	--------

Reporting in the 30 June 2020 Appendix 4C	94,000
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Difference due to foreign exchange and processing of an additional reconciling item:

Cashflow reclassification:

- | | |
|---|---------|
| <ul style="list-style-type: none"> Reporting in the 30 June 2020 Appendix 4C, item 1.7 under Cashflow from operating activities 'Government grants and incentives' now reclassified under cashflows from financing facilities 'Government grants', note 5.6. | 216,601 |
|---|---------|

5.7. Events Subsequent to Reporting Date

There are no other significant after balance date events that are not covered in this Directors' Report or within the financial statements as disclosed in Note 13 Events subsequent to reporting date on page 45.

5.8. Future Developments, Prospects and Business Strategies

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

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

5.9. Environmental Regulations

The Group's operations are not subject to any other significant environmental regulations in the jurisdictions it operates in, namely Australia and the United States.

6. Information relating to the directors

- | | |
|--|---|
| <ul style="list-style-type: none"> Mr Daniel Roberts | <input type="checkbox"/> Executive Director
Non-independent |
| Qualifications | <input type="checkbox"/> B.Sc, MDes |
| Experience | <input type="checkbox"/> Mr Roberts received a Bachelor of Science in Business Administration from Ohio State University, with a double major in Marketing and Logistics. Mr Roberts 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.

Prior to Scout, he worked as a Founder-in-Residence at Sandbox Industries, a start-up incubator in Chicago. During his time at Sandbox, Mr Roberts 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, Mr Roberts met David Shapiro and the two started working together professionally. Prior to graduate school, Mr Roberts 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 and Options | <input type="checkbox"/> 7,943,397 Ordinary Shares
<input type="checkbox"/> 18,000,000 Performance Shares |
| Special Responsibilities | <input type="checkbox"/> Chief Executive Officer |
| Directorships held in other listed entities during the three years prior to the current year | <input type="checkbox"/> None |

Directors' report

■ **Mr David Shapiro**

Qualifications

Experience

- ☐ Non-executive Director (*Resigned as Executive Director and appointed as Non-executive Director on 12 March 2020*)

Non-independent

- ☐ B.Sc.

- ☐ Mr Shapiro received a Bachelor of Science and Arts in computer science from Miami University of Ohio.

Prior to Scout, Mr Shapiro worked at Sandbox Industries in Chicago, Illinois as a lead developer. Similar to his role at Scout, he was responsible for overseeing and implementing the creation of technology stacks for the various projects he worked on during his time at Sandbox.

Prior to Sandbox, Mr Shapiro 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.

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 and Options

- ☐ 7,747,861 Ordinary Shares
18,000,000 Performance Shares

Special Responsibilities

- ☐ None

Directorships held in other listed entities during the three years prior to the current year

- ☐ None

■ **Mr Anthony Brown**

Qualifications

Experience

- ☐ Non-Executive Director
Independent

- ☐ GAICD

- ☐ Mr Brown 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.

Mr Brown 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.

During Mr Brown'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.

Mr Brown 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 and Options

- ☐ 2,906,273 Ordinary Shares
2,000,000 Options

Directorships held in other listed entities during the three years prior to the current year

- ☐ Suvo Strategic Minerals Limited (formerly known as UltraCharge Limited) (Appointed 23 September 2019, resigned 30 July 2020)

■ **Mr Solomon Majteles**

Qualifications

Experience

- ☐ Non-Executive Director
Independent

- ☐ LLB (WA), FAICD

- ☐ 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.

Directors' report

Interest in Shares and Options	<input type="checkbox"/> 650,000 Ordinary Shares <input type="checkbox"/> 2,000,000 Options
Directorships held in other listed entities during the three years prior to the current year	<input type="checkbox"/> Metals Australia Ltd – Non-Executive Director (Resigned 14 December 2018) <input type="checkbox"/> Thred Ltd – Non-Executive Director
Mr Martin Pretty	<input type="checkbox"/> Non-Executive Director (<i>Appointed 27 July 2020</i>) Independent
Qualifications	<input type="checkbox"/> BA, CFA
Experience	<input type="checkbox"/> Mr Pretty has over 20 years of experience in the investment and finance industry. He has been deeply involved throughout his career in supporting and investing in growing Australian-listed technology businesses. He was previously an investment manager with Thorney Investment Group and held management roles at ASX listed companies Hub24, Bell Financial Group and IWL Limited.
Interest in Shares and Options	<input type="checkbox"/> 1,281,745 Ordinary Shares <input type="checkbox"/> 599,014 Options
Directorships held in other listed entities during the three years prior to the current year	<input type="checkbox"/> Centrepont Alliance – Non-Executive Director <input type="checkbox"/> MGM Wireless Ltd – Non-Executive Director

7. Meetings of directors and committees

During the financial year, six meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year are stated in the following table.

	DIRECTORS' MEETINGS		REMUNERATION AND NOMINATION COMMITTEE		FINANCE AND OPERATIONS COMMITTEE		AUDIT COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Daniel Roberts	6	4	<i>At the date of this report, the Audit, Nomination, and Finance and Operations Committees comprise the full Board of Directors. The Directors believe the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of these separate committees. Accordingly, all matters capable of delegation to such committees are considered by the full Board of Directors.</i>					
David Shapiro	6	6						
Anthony Brown	6	6						
Sol Majteles	6	4						

8. Indemnifying officers or auditor

8.1. Indemnification

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

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.

8.2. Insurance premiums

The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Directors' report

9. Options

9.1. Unissued shares under option

At the date of this report, the unissued ordinary shares of the Company under option (listed and unlisted) are as follows:

Grant Date	Date of Expiry	Exercise Price \$	Number under Option	Vested & Exercisable
20 Dec 2017	20 Dec 2020	0.40	5,800,000	5,800,000
12 Dec 2018	7 Dec 2020	0.30	500,001	500,001
23 July 2020	16 July 2024	0.07	5,289,990	5,289,990
			11,589,991	11,589,991

No person entitled to exercise the option has or has any right by virtue of the option to participate in any share issue of any other body corporate.

9.2. Shares issued on exercise of options

No ordinary shares have been issued by the Company during the financial year as a result of the exercise of options (2019: nil).

10. Non-audit services

During the year, Bentleys Audit & Corporate (WA) Pty Ltd, the Company's auditor, provided no non-audit services (2019: nil), in addition to their statutory audits. Non-audit fees amounted to \$nil (2019: \$nil). Details of remuneration paid to the auditor can be found within the financial statements at Note 17 Auditor's Remuneration on page 46.

In the event that non-audit services are provided by Bentleys Audit & Corporate (WA) Pty Ltd, the Board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the *Corporations Act 2001* (Cth). These procedures include:

- non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

11. Proceedings on behalf of company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

12. 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.

13. Auditor's independence declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* (Cth) for the year ended 30 June 2020 has been received and can be found on page 15 of the annual report.

DIRECTORS' REPORT

14. 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 2020. The information in this remuneration report has been audited as required by s308(3C) of the *Corporations Act 2001* (Cth).

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.

14.1. Key management personnel (KMP)

This remuneration report details the remuneration arrangements for 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. KMP comprise the directors of the Company and key executive personnel:

- | | |
|--------------------|---|
| ■ Mr Daniel Robert | Executive Director and CEO |
| ■ Mr David Shapiro | Non-executive Director (<i>Resigned as Executive Director and appointed as Non-executive Director on 12 March 2020</i>) |
| ■ Mr Anthony Brown | Non-executive Director |
| ■ Mr Sol Majteles | Non-executive Director |

14.2. 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.

a. 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.

b. Use of Remuneration Consultants

Remuneration consultants were not used in the establishment of remuneration packages in 2020.

c. 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.

DIRECTORS' REPORT

14. Remuneration report (audited)

(1) Non-executive director 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.

The remuneration of non-executive directors for the period ended 30 June 2020 is detailed in section 14.3 of this remuneration report.

(2) Senior executive and executive director 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.

d. 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).

(1) Service Contracts

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.

e. Executive Remuneration

Remuneration and other terms of employment for the Executive Director and CEO and the Chief Technology Officer are formalised in service agreements. Other major provisions of these agreements are set out below:

(1) Executive Employment Agreement (EEA) – Daniel Roberts and David Shapiro

Scout has entered into EEAs with Daniel Roberts and David Shapiro, dated 28 February 2017, pursuant to which the Company has engaged:

- Daniel Roberts as Chief Executive Officer (**CEO**); and
- David Shapiro as Chief Technology Officer. (*Resigned as Executive Director and appointed as Non-executive Director on 12 March 2020*)

DIRECTORS' REPORT

14. Remuneration report (audited)

The material terms and conditions of the EEAs are summarised below:

- (1) **Term:** The EEAs 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 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 EEA for a period of 2 consecutive months or any periods aggregating 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 2 consecutive months
 - (ii) by giving 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 EEA 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 EEA 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;
 - (C) the Executive commits or becomes guilty of any gross misconduct; or
 - (D) 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 EEA; or
 - (iv) without reason by giving 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 3-month period.

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

f. Deed of termination with Mr David Shapiro

The Company has entered into a deed of termination with Mr Shapiro on 12 March 2020 to terminate his services as Executive Director under the Executive Employment Agreement.

g. Non-executive Director appointment with Mr David Shapiro

The Company has entered into a Non-Executive Director agreement with Mr Shapiro on 12 March 2020. The Company has agreed to pay Mr Shapiro a director fee of US\$1,000 per month for services provided to the Company as Non-Executive Director.

h. Voting and comments made at the Company's 2019 Annual General Meeting (AGM)

At the Annual General Meeting held on 29 November 2019, the company received 8,474,723 (94.5%) Yes votes and 490,615 (5.5%) Against and 18,000 Abstain on its remuneration report for the 2019 financial year. The Group did not employ a remuneration consultant during the year.

14.3. Directors and KMP remuneration

Details of the remuneration of the Directors and KMP of the Group (as defined in AASB 124 *Related Party Disclosures*) are set out in the following table.

Directors' report

14. Remuneration report (audited)

2020 – Group										
Group KMP	Short-term benefits				Post-employment benefits	Long-term benefits	Termination benefits	Equity-settled share-based payments		Total
	Salary, fees and leave	Profit share and bonuses	Non-monetary	Other	Super-annuation	Other		Equity / Perf. Rights	Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Daniel Roberts ⁽¹⁾	223,429	-	-	-	-	-	-	-	-	223,429
David Shapiro ^{(1) (2)}	157,661	-	-	-	-	-	-	-	-	157,661
Anthony Brown	49,980	-	-	-	-	-	-	-	-	49,980
Sol Majteles	45,662	-	-	-	4,338	-	-	-	-	50,000
	476,732	-	-	-	4,338	-	-	-	-	481,070

⁽¹⁾ Converted from USD to AUD using an average rate for the relevant period

⁽²⁾ Resigned as Executive Director and appointed as Non-executive Director on 12 March 2020

2019 – Group										
Group KMP	Short-term benefits				Post-employment benefits	Long-term benefits	Termination benefits	Equity-settled share-based payments		Total
	Salary, fees and leave	Profit share and bonuses	Non-monetary	Other	Super-annuation	Other		Equity	Options ⁽³⁾	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Daniel Roberts ⁽¹⁾	209,614	-	-	-	-	-	-	-	-	209,614
David Shapiro ⁽¹⁾	209,614	-	-	-	-	-	-	-	-	209,614
John Strong ⁽²⁾	29,394	-	-	-	-	-	-	-	109,000	138,394
Anthony Brown	49,980	-	-	-	-	-	-	-	109,000	158,980
Sol Majteles	38,052	-	-	-	3,615	-	-	-	109,000	150,667
	536,654	-	-	-	3,615	-	-	-	327,000	867,269

⁽¹⁾ Converted from USD to AUD using an average rate for the relevant period

⁽²⁾ Resigned 15 Jan 19

⁽³⁾ Options issued to Directors have a 2-year vesting period

14.4. Share-based compensation

The Group believes that encouraging its directors and executives to become shareholders is the best way of aligning their interests with those of its shareholders. At present the Group does not have an employee share option plan.

No shares or options were issued as share based compensation during the year (2019: nil)

There were no equity instruments issued during the year to Directors as a result of options exercised that had previously been granted as compensation.

a. Securities received that are not performance-related

No members of KMP are entitled to receive securities that are not performance-based as part of their remuneration package.

b. Options and Rights Granted as Remuneration

No equity instruments were granted in the financial year ended 30 June 2020 (2019: nil) as remuneration as detailed note 19 Share-based payments.

Directors' report

14. Remuneration report (audited)

14.5. KMP equity holdings

a. Fully paid ordinary shares of Scout Security Limited held by each KMP

The number of ordinary shares of Scout Security Limited held, directly, indirectly or beneficially, by each KMP, including their personally-related entities for the year ended 30 June 2020 is as follows

2020 – Group					
Group KMP	Balance at start of year No.	Received during the year as compensation No.	Received during the year on the exercise of options No.	Other changes during the year No.	Balance at end of year No.
Daniel Roberts	7,943,397	-	-	-	7,943,397
David Shapiro	7,747,861	-	-	-	7,747,861
Anthony Brown	2,669,689	-	-	236,584	2,906,273
Sol Majteles	650,000	-	-	-	650,000
	19,010,947	-	-	236,584	19,247,531

b. Options in Scout Security Limited held by each KMP

The number of options over ordinary shares in Scout Security Limited held, directly, indirectly or beneficially, by each KMP, including their personally-related entities for the year ended 30 June 2020 is as follows:

2020 – Group								
Group KMP	Balance at start of year No.	Granted as Remuneration during the year No.	Exercised during the year No.	Other changes during the year No.	Balance at end of year No.	Vested and Exercisable No.	Not Vested No.	
Daniel Roberts	-	-	-	-	-	-	-	-
David Shapiro	-	-	-	-	-	-	-	-
Anthony Brown	2,000,000	-	-	-	2,000,000	2,000,000	-	-
Sol Majteles	2,000,000	-	-	-	2,000,000	2,000,000	-	-
	4,000,000	-	-	-	4,000,000	4,000,000	-	-

The options were issued to Directors on their initial appointment and are not subject to any performance achievement. The options have a 2-year vesting date from issue date and may not be exercised until the expiry of a 2-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	22 Aug 2020	\$0.30	6,000,000	\$0.109	22 Aug 2019

Directors' report

14. Remuneration report (audited)

c. Performance Shares of Scout Security Limited held by each KMP

2020 – Group					
Group KMP	Balance at start of year No.	Received during the year as compensation No.	Received during the year on the exercise of options No.	Other changes during the year No.	Balance at end of year No.
Daniel Roberts	18,000,000	-	-	-	18,000,000
David Shapiro	18,000,000	-	-	-	18,000,000
Anthony Brown	-	-	-	-	-
Sol Majteles	-	-	-	-	-
	36,000,000	-	-	-	36,000,000

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

- (1) One third 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;
- (2) One third 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
- (3) One third 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 were 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.

Subsequent to balance date, the milestones were not met and the performance rights have not vested. Accordingly, no remuneration has been attributed.

14.6. Other Equity-related KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above relating to options, rights and shareholdings.

14.7. KMP Loans

There are no loans to or from KMP as at 30 June 2020 (2019: nil)

14.8. Other transactions with KMP and or their Related Parties

There have been no other transactions in addition to those described in the tables or as detailed in Note 16 Related party transactions.

END OF REMUNERATION REPORT

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001* (Cth).


DAN ROBERTS

Director and CEO

Dated this Wednesday, 30 September 2020



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To the Board of Directors

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

As lead audit Partner for the audit of the financial statements of Scout Security Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours Faithfully,

BENTLEYS
Chartered Accountants

MARK DELAURENTIS CA
Partner

Dated at Perth this 30th day of September 2020



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Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2020

	Note	2020 \$	2019 \$
<i>Continuing operations</i>			
Revenue	1.1	3,124,846	2,908,067
Cost of sales		(1,133,243)	(2,307,431)
		1,991,603	600,636
Other income	1.2	31	2,749
Consultancy and professional fees		(772,327)	(1,191,467)
Depreciation and amortisation		(27,646)	(1,592)
Employment costs	2.1	(1,519,176)	(1,408,543)
Finance costs		(52,074)	(34,132)
Information technology costs		(284,942)	(192,222)
Occupancy costs		(129,103)	(93,976)
Share-based payments expense	19	-	(327,000)
Sales and marketing		(364,275)	(515,320)
Shipping and postage		(13,537)	(19,379)
Travel and accommodation		(44,136)	(92,104)
Other expenses		(377,664)	(361,820)
Loss before tax		(1,593,246)	(3,634,170)
Income tax expense	4.1	-	-
Net loss for the year		(1,593,246)	(3,634,170)
<i>Other comprehensive income, net of income tax</i>			
■ Items that may be reclassified subsequently to profit or loss:			
□ Foreign currency movement		14,386	(19,118)
Other comprehensive income for the period, net of tax		14,386	(19,118)
Total comprehensive income attributable to members of the parent entity		(1,578,860)	(3,653,288)
<i>Earnings per share:</i>			
Basic loss per share (cents per share)	18.4	¢ (1.34)	¢ (3.18)
Diluted loss per share (cents per share)	18.4	N/A	N/A

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

Consolidated statement of financial position

as at 30 June 2020

	Note	2020 \$	2019 \$
<i>Current assets</i>			
Cash and cash equivalents	5.1	62,310	365,314
Trade and other receivables	5.2	19,963	13,076
Inventories	6.1	885,726	1,350,562
Other current assets	5.3	68,257	38,779
Total current assets		1,036,256	1,767,731
<i>Non-current assets</i>			
Property, plant, and equipment	6.2	-	26,466
Total non-current assets		-	26,466
Total assets		1,036,256	1,794,197
<i>Current liabilities</i>			
Trade and other payables	5.4	1,212,519	1,028,387
Unearned revenues	5.5	1,030,785	600,599
Total current liabilities		2,243,304	1,628,986
<i>Non-current liabilities</i>			
Borrowings	5.6	206,601	-
Total non-current liabilities		206,601	-
Total liabilities		2,449,905	1,628,986
Net (liabilities)/assets		(1,413,649)	165,211
<i>Equity</i>			
Issued capital	7.1	12,179,075	12,179,075
Reserves	7.4	3,295,982	3,281,596
Accumulated losses		(16,888,706)	(15,295,460)
Total equity		(1,413,649)	165,211

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

Consolidated statement of changes in equity

for the year ended 30 June 2020

	Note	Contributed equity	Foreign Currency Translation Reserve	Share-based Payments Reserve	Accumulated Losses	Total equity
		\$	\$	\$	\$	\$
<i>Balance at 1 July 2018</i>		9,123,799	50,898	2,914,323	(11,661,290)	427,730
Loss for the year attributable owners of the parent		-	-	-	(3,634,170)	(3,634,170)
Other comprehensive income for the year attributable owners of the parent		-	(19,118)	-	-	(19,118)
Total comprehensive income for the year attributable owners of the parent		-	(19,118)	-	(3,634,170)	(3,653,288)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the year (net of costs)	7.1	3,055,276	-	-	-	3,055,276
Options granted during the year	7.3	-	-	335,493	-	335,493
Balance at 30 June 2019		12,179,075	31,780	3,249,816	(15,295,460)	165,211
<i>Balance at 1 July 2019</i>		12,179,075	31,780	3,249,816	(15,295,460)	165,211
Loss for the year attributable owners of the parent		-	-	-	(1,593,246)	(1,593,246)
Other comprehensive income for the year attributable owners of the parent		-	14,386	-	-	14,386
Total comprehensive income for the year attributable owners of the parent		-	14,386	-	(1,593,246)	(1,578,860)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the year (net of costs)		-	-	-	-	-
Balance at 30 June 2020		12,179,075	46,166	3,249,816	(16,888,706)	(1,413,649)

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

Consolidated statement of cash flows

for the year ended 30 June 2020

	Note	2020 \$	2019 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		3,680,448	3,529,124
Payments to suppliers and employees		(4,148,010)	(6,465,812)
Interest received		31	2,749
Finance costs		(52,074)	-
Net cash used in operating activities	5.1.2a	(519,605)	(2,933,939)
<i>Cash flows from investing activities</i>			
Net cash used in investing activities		-	-
<i>Cash flows from financing activities</i>			
Proceeds from issue of shares	7.1	-	3,055,276
Interest paid		-	(25,639)
Proceeds of borrowings		500,000	500,000
Repayment of borrowings		(500,000)	(500,000)
Government grants	5.6	216,601	-
Net cash provided by financing activities		216,601	3,029,637
Net (decrease) / increase in cash and cash equivalents held		(303,004)	95,698
Cash and cash equivalents at the beginning of the year		365,314	269,616
Cash and cash equivalents at the end of the year	5.1	62,310	365,314

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

Notes to the consolidated financial statements

for the year ended 30 June 2020

In preparing the 2020 financial statements, Scout Security Limited has grouped notes into sections under five key categories:

■ Section A: How the numbers are calculated	21
■ Section B: Risk	38
■ Section C: Group structure	43
■ Section D: Unrecognised items	45
■ Section E: Other Information	46

Significant accounting policies specific to each note are included within that note. Accounting policies that are determined to be non-significant are not included in the financial statements.

The presentation of the notes to the financial statements has changed from the prior year and is supported by the IASB's Disclosure Initiative. As part of this project, the AASB made amendments to AASB 101 *Presentation of Financial Statements* which have provided preparers with more flexibility in presenting the information in their financial reports.

The financial report is presented in Australian dollars, except where otherwise stated.

Notes to the consolidated financial statements

for the year ended 30 June 2020

SECTION A. HOW THE NUMBERS ARE CALCULATED

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the entity, including:

- (a) accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction.*
- (b) analysis and sub-totals.*
- (c) information about estimates and judgements made in relation to particular items.*

Note	1	Revenue and other income	2020 \$	2019 \$
1.1	Revenue			
	Product sales		982,196	2,031,755
	Subscription revenues		619,507	876,312
	Development fees		933,403	-
	Licensing and support fees		589,740	-
			3,124,846	2,908,067
1.2	Other Income			
	Interest income		31	2,749
			31	2,749

1.3 Accounting policy**1.3.1 Revenue from contracts with customers**

Revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for those goods or services.

Revenue is recognised by applying a five-step process outlined in AASB 15 which is as follows:

Step 1: Identify the contract with a customer;

Step 2: Identify the performance obligations in the contract and determine at what point they are satisfied;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations; and

Step 5: Recognise the revenue as the performance obligations are satisfied.

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation is a promise to transfer a distinct goods or service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to the customer that is explicitly stated in the contract and implied in the Group's customary business practices.

Revenue is measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customers, excluding amounts collected on behalf of third parties such as sales taxes or services taxes. If the amount of consideration varies due to discounts, rebates, refunds, credits, incentives, penalties or other similar items, the Group estimates the amount of consideration to which it will be entitled based on the expected value or the most likely outcome. If the contract with customer contains more than one performance obligation, the amount of consideration is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services promised in the contract. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note	1	Revenue and other income (cont.)
		<p>The control of the promised goods or services may be transferred over time or at a point in time. The control over the goods or services is transferred over time and revenue is recognised over time if:</p> <ul style="list-style-type: none"> i. the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; ii. the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or iii. the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date. <p>Revenue for performance obligation that is not satisfied over time is recognised at the point in time at which the customer obtains control of the promised goods or services.</p>
1.3.2		<p>Revenue from sale of goods and development fees and licensing fees</p> <p>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.</p>
1.3.3		<p>Revenue from rendering of services</p> <p>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).</p>
1.3.4		<p>Interest income</p> <p>Interest revenue is recognised in accordance with Note 3.1 Finance income and expenses.</p>

Note	2	Loss before income tax	2020 \$	2019 \$
The following significant revenue and expense items are relevant in explaining the financial performance:				
2.1	Employment costs			
	■	Salary and wages	1,419,196	1,324,831
	■	Director Fees	95,642	79,374
	■	Superannuation	4,338	4,338
			1,519,176	1,408,543

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 2 Loss before income tax (cont.)**2.1.1 Accounting policy****a. Short-term benefits**

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

b. Other long-term benefits

The Group's obligation in respect of long-term employee benefits other than defined benefit plans, such as long service leave, is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the Reserve Bank of Australia's cash rate at the report date that have maturity dates approximating the terms of the Company's obligations. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

c. Retirement benefit obligations: Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions onto a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

d. Termination benefits

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of: (a) the date when the Group can no longer withdraw the offer for termination benefits; and (b) when the Group recognises costs for restructuring pursuant to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the costs include termination benefits. In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

e. Equity-settled compensation

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes pricing model, considering the terms and conditions upon which the options were granted. The amount recognised is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions not being met.

Note 3 Other Significant Accounting Policies related to items of profit and loss**3.1 Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest revenue is recognised on a time proportionate basis that considers the effective yield on the financial asset.

Financial expenses comprise interest expense on borrowings calculated using the effective interest method, unwinding of discounts on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in income in the period in which they are incurred.

Foreign currency gains and losses are reported on a net basis.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note	4	Income tax	2020 \$	2019 \$
4.1		Income tax expense		
		Current tax	-	-
		Deferred tax	-	-
			-	-
		Deferred income tax expense included in income tax expense comprises:		
		■ Increase / (decrease) in deferred tax assets	4.6	-
		■ (Increase) / decrease in deferred tax liabilities	-	-
			-	-
4.2		Reconciliation of income tax expense to prima facie tax payable		
		The prima facie tax payable/(benefit) on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
		Accounting loss before tax	(1,593,246)	(3,634,170)
		Prima facie tax on operating loss at 27.5% (2019: 27.5%)	(438,143)	(999,397)
		Add / (Less) tax effect of:		
		<input type="checkbox"/> Difference in overseas jurisdictions tax rate	(33,400)	79,773
		<input type="checkbox"/> Non-deductible expenses	131,648	230,201
		<input type="checkbox"/> Timing differences	-	
		<input type="checkbox"/> Deferred tax asset not brought to account	339,895	689,423
			-	-
		Income tax expense/(benefit) attributable to operating loss	-	-
			%	%
4.3		The applicable weighted average effective tax rates attributable to operating profit are as follows:	-	-
	a.	The tax rates used in the above reconciliations is the corporate tax rate of 27.5% payable by the Australian corporate entity on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting year.		
	b.	The US entity tax rate is a blend of the federal and state taxes at 21% and 9.5% respectively. The US corporate entities tax losses have unrecognised deferred tax assets in relation to unutilised tax losses carried forward for which no deferred tax asset has been recorded as it is not probable that taxable profit will be available in the foreseeable future.		

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note	4	Income tax (cont.)	2020 \$	2019 \$
4.4		Balance of franking account at year end of the parent	nil	nil
4.5		Current tax liabilities		
		Foreign Income tax payable	-	-
			-	-
4.6		Deferred tax assets		
		Tax losses	-	-
			-	-
		Net deferred tax assets	-	-
4.7		Tax losses and deductible temporary differences		
		Unused tax losses and deductible temporary differences for which no deferred tax asset has been recognised, that may be utilised to offset tax liabilities:		
		■ Revenue losses attributable to Australia	155,215	51,455
		■ Revenue losses attributable to foreign subsidiaries	4,848,040	4,261,976
		■ Deductible temporary differences	409	9,522
			5,003,664	4,322,953

4.8 Potential deferred tax assets attributable to tax losses have not been brought to account at 30 June 2020 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- the company continues to comply with conditions for deductibility imposed by law; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss.

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates consider both the financial performance and position of the company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by tax authorities in relevant jurisdictions.

The parent company has accumulated tax losses of \$564,418 (2019: \$187,109) which are expected to be available indefinitely for offset against future taxable profits of the parent company in which the losses arose. The recoupment of these losses is subject to assessment of the Australian Taxation Office. The parent company has additional accumulated tax losses of \$7,938,150 which are not expected to be available to offset any future taxable profits as their origin cannot be determined. No deferred tax asset has been recorded in relation to these tax losses as it is not probable that taxable profit will be available in the foreseeable future and they may not be used to offset taxable.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 4 Income tax (cont.)**4.9 Accounting policy**

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date, in each jurisdiction.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Scout Security Limited recognises its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated group.

Where the Group receives the Australian Government's Research and Development Tax Incentive, the Group accounts for the refundable tax offset under AASB 112. Funds are received as a rebate through the parent company's income tax return.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 5 Financial assets and financial liabilities**5.1 Cash and cash equivalents**

Cash at bank

2020	2019
\$	\$
62,310	365,314
62,310	365,314

5.1.1 The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 8 Financial risk management.

5.1.2 Cash Flow Information**a. Reconciliation of cash flow from operations to loss after income tax**

Loss after income tax

Cash flows excluded from loss attributable to operating activities

Non-cash flows in loss from ordinary activities:

■ Depreciation and amortisation

■ Foreign exchange loss / (gain)

■ Net share-based payments expensed

Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:

■ Decrease / (increase) in inventories

■ (Increase) / decrease in prepayments and other receivables

■ Increase / (decrease) in trade and other payables

■ Increase in unearned revenue

Cash flow (used in) from operations

2020	2019
\$	\$
(1,593,246)	(3,634,170)
-	-
27,646	1,592
13,205	37,982
-	335,493
464,836	(57,078)
(36,365)	260,321
174,133	(478,678)
430,186	600,599
(519,605)	(2,933,939)

b. Credit and loan standby arrangement with banks

The Group has no credit standby facilities.

c. Non-cash investing and financing activities**2020**

None.

2019

None.

5.1.3 Changes in financial liabilities arising from financing activities

Opening balance

Advanced

Repayments

Loans	Government Loans
\$	\$
-	-
500,000	206,601
(500,000)	-
-	206,601

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 5 Financial assets and financial liabilities (cont.)

5.2	Trade and other receivables	Note	2020 \$	2019 \$
5.2.1	<i>Current</i>			
	Trade receivable	5.2.3	19,963	13,076
			19,963	13,076

5.2.2 The Group's exposure to credit rate risk is disclosed in Note 8 Financial risk management.

5.2.3 The average credit period on sales of goods and rendering of services ranges from 30 to 60 days. Interest is not charged. No allowance has been made for estimated irrecoverable trade receivable amounts arising from past sale of goods and rendering of services, determined by reference to past default experience. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction.

5.2.4 *Accounting policy*

Trade receivables are generally due for settlement within periods ranging from 30 to 60 days. 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. Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance. (see also Note 5.7.1).

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

5.3	Other assets	Note	2020 \$	2019 \$
5.3.1	<i>Current</i>			
	Other current assets		68,257	38,779
			68,257	38,779

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 5 Financial assets and financial liabilities (cont.)**5.4 Trade and other payables****5.4.1 Current***Unsecured*

Trade payables

Accruals and other payables

	2020 \$	2019 \$
	960,671	779,454
	251,848	248,933
	1,212,519	1,028,387

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

5.4.3 Accounting policy**a. Trade and other payables**

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

5.5 Unearned revenues**5.5.1 Current***Unsecured*

Unearned revenues

	2020 \$	2019 \$
	1,030,785	600,599
	1,030,785	600,599

5.6 Interest-bearing loans and borrowings

Note

5.6.1 Non-current

Government loans

	2020 \$	2019 \$
	206,601	-
	206,601	-

5.6.2 On 21 April 2020, the Company has been approved by the US Small Business Administration (SBA) to access non-dilutive, forgivable funding as part of the Paycheck Protection Program ("PPP"), pursuant to the recently adopted Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").

Under the PPP, the US government has authorised up to US\$349 billion in forgivable loans to small businesses to pay their employees during the COVID-19 crisis. The program provides eligible companies with 2.5x their expected monthly payroll costs to support them through the COVID-19 crisis.

The Company has been approved for an unsecured loan of US\$141,790, based on its calculation of the maximum amount it is permitted given the current guidance provided by the United States Department of Treasury. The loan is due in two years, attracts a fixed annual interest rate of 1% and all payments are deferred for 6 months; however, interest will continue to accrue over this period.

5.6.3 The Company entered into an agreement providing access to a working capital facility of up to \$1,000,000, available in two separate tranches with interest payable at 11.25% per annum. As part of the agreement, the lender had the options to charge a lower interest in exchange for options to buy shares in the Company. In the event of the lender exercising the "Lender Options", 1,000,000 and 2,000,000 options to be issued respectively in accordance with the agreement, each exercisable at strike price of \$0.15 within a maximum period of 2 years from the date the options are granted. The loan has a registered charge on the company.

The first tranche \$500,000 was drawn down on 27 August 2019. As at 30 June 2020 the first tranche has been fully repaid.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 5 Financial assets and financial liabilities (cont.)**5.6 Interest-bearing loans and borrowings (cont.)****5.6.4 Accounting policy****a. Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 5 Financial assets and financial liabilities (cont.)**5.7 Other Significant Accounting Policies related to Financial Assets and Liabilities****5.7.1 Investments and other financial assets****a. Classification**

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

b. Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

c. Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

i. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

ii. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 5 Financial assets and financial liabilities (cont.)**5.7 Other Significant Accounting Policies related to Financial Assets and Liabilities**

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

d. Impairment

The Group assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Note 6 Non-financial assets and financial liabilities**6.1 Inventories**

	2020 \$	2019 \$
Finished goods	539,010	935,519
Components	346,716	415,043
	885,726	1,350,562

6.1.1 Accounting policy

Inventories are valued at the lower of cost and net realisable value on a *first-in, first-out (FIFO)* basis. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Finished goods - 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 estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 6 Non-financial assets and financial liabilities (cont.)**6.2 Property, plant, and equipment**

Note	2020 \$	2019 \$
Furniture and fittings	517,158	517,158
Accumulated depreciation	(517,158)	(490,692)
Total plant and equipment	-	26,466
	Furniture and fittings \$	Total \$
6.2.1 <i>Movements in Carrying Amounts</i>		
<i>Carrying amount at 1 July 2018</i>	59,519	59,519
Disposals / write-offs	(31,461)	(31,461)
Depreciation expense	(1,592)	(1,592)
Foreign currency exchange differences	-	-
<i>Carrying amount at 30 June 2019</i>	26,466	26,466
<i>Carrying amount at 1 July 2019</i>	26,466	26,466
Depreciation expense	(27,095)	(27,095)
Foreign currency exchange differences	629	629
<i>Carrying amount at 30 June 2020</i>	-	-

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 6 Non-financial assets and financial liabilities (cont.)**6.2 Property, plant, and equipment (cont.)****6.2.3 Accounting policy****a. Recognition and measurement**

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Items of plant and equipment are measured on the cost basis and carried at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 6.3.1 Impairment of non-financial assets).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. Cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Where considered material, the carrying amount of property, plant, and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Where parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

b. Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Any costs of the day-to-day servicing of plant and equipment are recognised in the income statement as an expense as incurred.

c. Depreciation

Depreciation is charged to the income statement on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. All leasehold improvements are presently impaired.

Depreciation rates and methods are reviewed annually for appropriateness. The depreciation rates used for the current and comparative period are:

	2020 %	2019 %
■ Furniture and fittings	14.3 to 33.33	14.3 to 33.33

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

d. Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 6 Non-financial assets and financial liabilities (cont.)**6.3 Other Significant Accounting Policies related to Non-Financial Assets and Liabilities****6.3.1 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets (see accounting policy at note 4.9) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 7 Equity

7.1 Issued capital	Note	2020 No.	2019 No.	2020 \$	2019 \$
Fully paid ordinary shares at no par value		119,211,053	119,211,053	12,179,075	12,179,075
7.1.1 <i>Ordinary shares</i>		2020 No.	2019 No.	2020 \$	2019 \$
At the beginning of the year		119,211,053	108,123,685	12,179,075	9,123,799
Shares issued during the year:					
■ Placement at \$0.30 (Director participation)		-	250,000	-	75,000
■ Share subscription Agreement at \$0.275		-	10,837,368	-	2,980,276
Transaction costs relating to share issues		-	-	-	-
At reporting date		119,211,053	119,211,053	12,179,075	12,179,075

7.1.2 Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

7.1.3 *Accounting policy*

Ordinary issued capital is recorded at the consideration received. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Ordinary issued capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

7.2 Performance shares

	2020 No.	2019 No.
Performance shares	36,000,000	36,000,000

7.3 Options

	2020 No.	2019 No.	2020 \$	2019 \$
Options and performance shares	27,300,001	42,972,175	3,249,816	3,249,816
At the beginning of the period	42,972,175	26,800,000	3,249,816	2,914,323
Options issued/(lapsed) during the year:				
■ Options (lapsed)/issued via share subscription agreement ¹	(16,005,508)	16,005,508	-	-
■ Issue of loan options ²	333,334	166,667	-	8,493
■ Share-based payment expense for options issued in the prior period	-	-	-	327,000
At reporting date	27,300,001	42,972,175	3,249,816	3,249,816

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 year ended 30 June 2019.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 7 Equity (cont.)**7.4 Reserves**

		2020 \$	2019 \$
Foreign currency translation reserve	7.4.1	46,166	31,780
Share-based payment reserve	7.4.2	3,249,816	3,249,816
		3,295,982	3,281,596

7.4.1 Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

7.4.2 Share-based payment reserve (formerly Option reserve)

The share-based payment reserve records the value of options and performance shares issued the Company to its employees or consultants.

Notes to the consolidated financial statements

for the year ended 30 June 2020

SECTION B. RISK

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

Note 8 Financial risk management**8.1 Financial Risk Management Policies**

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk, and the management of capital.

The Group's financial instruments consist mainly of deposits with banks, short-term investments, and accounts payable and receivable.

The Group does not speculate in the trading of derivative instruments.

A summary of the Group's financial assets and liabilities is shown below:

	Floating Interest Rate	Fixed Interest Rate	Non- interest Bearing	2020 Total	Floating Interest Rate	Fixed Interest Rate	Non- interest Bearing	2019 Total
	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets								
□ Cash and cash equivalents	62,310	-	-	62,310	365,314	-	-	365,314
□ Trade and other receivables	-	-	19,963	19,963	-	-	13,076	13,076
□ Other assets	-	-	68,257	68,257	-	-	38,779	38,779
Total Financial Assets	62,310	-	88,220	150,530	365,314	-	51,855	417,169
Financial Liabilities								
Financial liabilities at amortised cost								
□ Trade and other payables	-	-	1,212,519	1,212,519	-	-	1,028,387	1,028,387
□ Borrowings	-	-	206,601	206,601	-	-	-	-
Total Financial Liabilities	-	-	1,419,120	1,419,120	-	-	1,028,387	1,028,387
Net Financial Assets / (Liabilities)	62,310	-	(1,330,900)	(1,268,590)	365,314	-	(976,532)	(611,218)

8.2 Specific Financial Risk Exposures and Management

The main risk the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate, foreign currency risk and equity price risk.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework. The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Group's risk profile. This includes assessing, monitoring and managing risks for the Group and setting appropriate risk limits and controls. The Group is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for risk management and associated controls. Instead, the Board approves all expenditure, is intimately acquainted with all operations and discuss all relevant issues at the Board meetings. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 8 Financial risk management (cont.)**8.2.1 Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

■ **Credit risk exposures**

The maximum exposure to credit risk is that to its alliance partners and that is limited to the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with approved Board policy. Such policy requires that surplus funds are only invested with financial institutions residing in Australia, where ever possible.

8.2.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's ability to raise equity funding in the market is paramount in this regard.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 8 Financial risk management (cont.)

Typically, the Group ensures that it has sufficient cash to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The financial liabilities of the Group include trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 30 days of the reporting date.

■ **Contractual Maturities**

The following are the contractual maturities of financial assets and liabilities of the Group:

	Within 1 Year		Greater Than 1 Year		Total	
	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$
Financial liabilities due for payment						
Trade and other payables	1,212,519	1,028,387	-	-	1,212,519	1,028,387
Borrowings	-	-	206,601	-	206,601	-
Total contractual outflows	1,212,519	1,028,387	206,601	-	1,419,120	1,028,387
Financial assets						
Cash and cash equivalents	62,310	365,314	-	-	62,310	365,314
Trade and other receivables	19,963	13,076	-	-	19,963	13,076
Total anticipated inflows	82,273	378,390	-	-	82,273	378,390
Net (outflow) / inflow on financial instruments	(1,130,246)	(649,997)	(206,601)	-	(1,336,847)	(649,997)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

8.2.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities minimally expose it to the financial risks of changes in foreign currency exchange rates, commodity prices and exchange rates. The Group does not enter into derivative financial instruments including foreign exchange forward contracts to hedge against financial risk. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

a. Interest rate risk

The company and the Group are exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 8 Financial risk management (cont.)

The Company and the Group's exposures to interest rate in financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

b. Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group. 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 US Dollar to Australian dollar exchange rates.

c. Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group does not presently hold material amounts subject to price risk. As such the Board considers price risk as a low risk to the Group.

8.2.4 Sensitivity Analyses

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance sheet date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit \$	Equity \$
a. Interest rates		
Year ended 30 June 2020		
±100 basis points change in interest rates	± 623	± 623
Year ended 30 June 2019		
±100 basis points change in interest rates	± 3,653	± 3,653
b. Foreign exchange		
Year ended 30 June 2020		
±10% of Australian dollar strengthening/weakening against the United States dollar	± 101,213	± 113,889
Year ended 30 June 2019		
±10% of Australian dollar strengthening/weakening against the United States dollar	± 240,865	± 2,638

8.2.5 Net Fair Values**a. Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the table in Note 8.1 and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 8 Financial risk management (cont.)

Financial instruments whose carrying value is equivalent to fair value due to their nature include:

- Cash and cash equivalents;
- Trade and other receivables; and
- Trade and other payables.

The methods and assumptions used in determining the fair values of financial instruments are disclosed in the accounting policy notes specific to the asset or liability.

Note 9 Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

The working capital position of the Group was as follows:

	Note	2020 \$	2019 \$
Cash and cash equivalents	5.1	62,310	365,314
Trade and other receivables	5.2	19,963	13,076
Inventories	6.1	885,726	1,350,562
Other current assets (excl. prepayments)	5.3	68,257	38,779
Trade and other payables	5.4	(1,212,519)	(1,028,387)
Unearned revenues	5.5	(1,030,785)	(600,599)
Working capital position		(1,207,048)	138,745

Notes to the consolidated financial statements

for the year ended 30 June 2020

SECTION C. GROUP STRUCTURE

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole. In particular, there is information about:

- (a) changes to the structure that occurred during the year as a result of business combinations and the disposal of a discontinued operation*
- (b) transactions with non-controlling interests, and*
- (c) interests in joint operations.*

A list of significant subsidiaries is provided in note 10. This note also discloses details about the Group's equity accounted investments.

Note 10 Interest in subsidiaries**10.1 Information about principal subsidiaries**

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group and the proportion of ownership interest held equals the voting rights held by the Group. Investments in subsidiaries are accounted for at cost. Each subsidiaries country of incorporation is also its principal place of business:

	Country of Incorporation	Class of Shares	Percentage Owned	
			2020	2019
■ Scout Security Inc	USA	Ordinary	100.0	100.0

Note 11 Other Significant Accounting Policies related to Group Structure**11.1 Basis of consolidation**

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the Consolidated Group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

11.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control exists when the Group is exposed to variable returns from another entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
 - the recognised amount of any non-controlling interests in the acquiree; plus
 - if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree;
- less

- the net recognised amount of the identifiable assets acquired and liabilities assumed.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill.

If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 11 Other Significant Accounting Policies related to Group Structure**11.1.2 Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as non-controlling interests. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

A list of controlled entities is contained in Note 10 Interest In Subsidiaries of the financial statements.

11.1.3 Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interests are measured at fair value at the date control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

11.1.4 Transactions eliminated on consolidation

All intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2020

SECTION D. UNRECOGNISED ITEMS

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

Note 12 Commitments

There are no commitments as at 30 June 2020 (2019: Nil).

Note 13 Events subsequent to reporting date

On 16 July 2020, the Company entered into a Convertible Note Deed ("Note") with clients of Gleneagle Securities (Aust) Pty Limited and existing shareholders of the Company, to raise up to \$2 million. As at the date of this report, initial instalment of \$750,000 has been completed in accordance with the Convertible Note Deed.

On 23 July 2020, the Company allotted 5,289,990 unquoted options in connection to the \$2 million Convertible Note facility announced on 16 July 2020. The options are issued at nil cost, exercisable at \$0.07, expiring on 16 July 2024.

On 27 July 2020, the Company appointed Mr Martin Pretty as a Non-executive director of the Company. Mr Pretty is a Gleneagle Securities (Aust) Pty Limited, director nominee appointee, the appointment being conditional on the completion and settlement of the initial instalment of the Convertible Note which has now been completed.

There has not been any other matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

Note 14 Contingent liabilities

There are no other contingent liabilities as at 2020 (2019: Nil).

Notes to the consolidated financial statements

for the year ended 30 June 2020

SECTION E. OTHER INFORMATION

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

Note 15 Key Management Personnel compensation (KMP)

The names and positions of KMP are as follows:

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

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by the Corporations Regulations 2M.3.03 is provided in the Remuneration report table on page 12.

	2020 \$	2019 \$
Short-term employee benefits	476,732	536,654
Post-employment benefits	4,338	3,615
Share-based payments	-	327,000
Total	481,070	867,269

Note 16 Related party transactions

There are no other related party transactions other than those payments to Directors as disclosed in the remuneration report.

Note 17 Auditor's remuneration

Remuneration of the auditor for:

- Auditing or reviewing the financial reports:
 - ☐ Nexia Audit Services Pty Ltd
 - ☐ Bentleys Audit & Corporate (WA) Pty Ltd

	2020 \$	2020 \$
	-	59,500
	40,910	-
	40,910	59,500

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note	18	Earnings per share (EPS)	Note	2020 \$	2019 \$
18.1		Reconciliation of earnings to profit or loss			
		Loss for the year		(1,593,246)	(3,634,170)
		Less: loss attributable to non-controlling equity interest		-	-
		Loss used in the calculation of basic and diluted EPS		(1,593,246)	(3,634,170)
				2020 No.	2019 No.
18.2		Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		119,211,053	114,341,215
		Weighted average number of dilutive equity instruments outstanding	18.5	N/A	N/A
18.3		Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		119,211,053	114,341,215
				2020 ¢	2019 ¢
18.4		Earnings per share			
		Basic EPS (cents per share)	18.5	(1.34)	(3.18)
		Diluted EPS (cents per share)	18.5	N/A	N/A
18.5		As at 30 June 2020 the Group has 27,300,001 unissued shares under options (2019: 42,972,175) and 36,000,000 performance shares on issue (2019: 36,000,000). The Group does not report diluted earnings per share on losses generated by the Group. During the year, the Group's unissued shares under option and partly-paid shares were anti-dilutive.			

Note	19	Share-based payments	Note	2020 \$	2019 \$
19.1		Share-based payments:			
		▪ Recognised as Share-based payment expense		-	327,000
		Gross share-based payments		-	327,000

19.2 Share-based payment arrangements in effect during the period**19.2.1 Share-based payments recognised in profit or loss****19.2.2 Issued in prior period, remaining in effect****a. Loan Options (1)**

On 12 December 2018, 166,667 Loan Options were issued. An additional 333,334 Options were approved by shareholders at the AGM held Nov 2019 and issued on 19 February 2020. Details of the assumptions used in the valuation of the options of these options are summarised below and in Note 19.4:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
500,001	7 December 2020	\$0.30	Immediately upon issue

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 19 Share-based payments (cont.)*Loan Options (2)*

On 12 December 2018, 16,005,508 Loan Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below and in Note 19.4:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
16,005,508	31 December 2019	\$0.28	Immediately upon issue

b. Director Options

On 22 August 2017, 6,000,000 Options were issued to Directors (grant date 15 February 2017), as detail below and in Note 19.4:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
6,000,000	22 August 2020	\$0.30	22 February 2019

c. Capital Raising Options

On 22 August 2017, 15,000,000 Options were issued to Directors (grant date 15 February 2017), as detail below and in Note 19.4:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
15,000,000	22 August 2020	\$0.30	Immediately upon issue

d. Incentive Options

On 20 December 2017, 5,800,000 Options were issued to Directors (grant date 15 February 2017), as detail below and in Note 19.4:

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
5,800,000	20 December 2020	\$0.40	Immediately upon issue

e. Performance Shares

During the year ended 30 June 2018, 36,000,000 Performance Shares issued on 22 August 2017 to Mr Daniel Roberts and 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 as detailed below and as detailed below.

Class of Performance Right	Performance Condition	Performance rights No.	Milestone Date	Expiry Date	Performance Condition Satisfied
A	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.	12,000,000	6 months following issued date	2 years from the date of issue	No
B	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.	12,000,000	12 months following issued date	2 years from the date of issue	No
C	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.	12,000,000	18 months following issued date	2 years from the date of issue	No

Subsequent to balance date, the milestones were not met and the performance rights have not vested.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 19 Share-based payments (cont.)**19.3 Movement in share-based payment arrangements during the period**

A summary of the movements of all Company options issued as share-based payments is as follows:

	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	42,972,175	\$0.2724	26,800,000	\$0.2677
Granted	333,334	\$0.3000	16,172,175	\$0.2900
Exercised	-	-	-	-
Expired	(16,005,508)	(\$0.2800)	-	-
Outstanding at year-end	27,300,001	\$0.3195	42,972,175	\$0.2724
Exercisable at year-end	27,300,001	\$0.3195	42,972,175	\$0.2724

- No options were exercised during the year (2019: Nil).
- The weighted average remaining contractual life of options outstanding at year end was 0.22 years (2019: 0.95 years). The weighted average exercise price of outstanding options at the end of the reporting period was \$0.2683 (2019: \$0.2724).
- The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period.

19.4 Fair value of options granted during the year

The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period.

No options were granted during the year.

The weighted average fair value of options granted during the year was \$nil (2019: \$0.290). These values were calculated using the Black-Scholes option pricing model, applying the following inputs to options:

Note Reference	19.2.2a	19.2.2a	19.2.2b	19.2.2c	19.2.2d
Grant date:	12.12.2018	12.12.2018	15.2.2017	15.2.2017	20.12.2017
Grant date share price:	\$0.20	\$0.20	\$0.20	\$0.20	\$0.30
Option exercise price:	\$0.30	\$0.28	\$0.30	\$0.30	\$0.40
Number of options issued:	500,001	16,005,508	6,000,000	15,000,000	5,800,000
Remaining life (years):	0.43	nil	0.145	0.145	0.474
Expected share price volatility:	N/A	N/A	100.00%	100.00%	100.00%
Risk-free interest rate:	1.93%	N/A	1.94%	1.94%	1.5%
Value per option	\$0.0130	N/A	\$0.1090	\$0.1160	\$0.1546

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

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

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 19 Share-based payments (cont.)**19.4.1 Accounting policy**

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.

19.4.2 Key estimate**a. Share-based payments**

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 19.4.

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 19.4

b. Performance Shares

The Company issued 36,000,000 performance shares 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 20 Operating segments**20.1 Identification of reportable segments**

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

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

20.2 Basis of accounting for purposes of reporting by operating segments**20.2.1 Accounting policies adopted**

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

20.3 Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

Australia

United States

Total revenue

	2020 \$	2019 \$
	-	-
	3,124,846	2,908,067
	3,124,846	2,908,067

20.4 Assets by geographical region

The location of segment assets by geographical location of the assets is disclosed below:

Australia

United States

Total assets

	67,538	286,402
	968,718,	1,507,795
	1,036,256	1,794,197

20.5 Major customers

The Group has a number of customers to whom it provides both products and services. The Group has customers who account for 36% (2019: 48%) of total revenue.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 21 Parent entity disclosures

Scout Security Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Scout Security Limited did not enter into any trading transactions with any related party during the year.

21.1 Financial Position of Scout Security Limited

	2020 \$	2019 \$
Current assets	67,538	286,402
Non-current assets	-	-
Total assets	67,538	286,402
Current liabilities	228,409	92,168
Non-current liabilities	-	-
Total liabilities	228,409	92,168
Net (liability)/assets	(160,871)	194,234
<i>Equity</i>		
Issued capital	12,179,075	12,179,075
Reserve	3,249,816	3,249,816
Accumulated losses	(15,589,762)	(15,234,657)
Total equity	(160,871)	194,234

21.2 Financial performance of Scout Security Limited

	2020 \$	2019 \$
Loss for the year	(355,105)	(975,090)
Other comprehensive income	-	-
Total comprehensive income	(355,105)	(975,090)

21.3 Guarantees

There are no guarantees entered into by Scout Security Limited for the debts of its subsidiaries as at 2020 (2019: none).

21.4 Contractual commitments

The parent company has no capital commitments at 2020 (2019: \$nil). The parent company other commitments are disclosed in Note 12 Commitments.

21.5 Contingent liabilities

There are no guarantees entered into by Scout Security Limited for the debts of its subsidiaries as at 2020 (2019: none).

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 22 Statement of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

22.1 Basis of preparation**22.1.1 Reporting Entity**

Scout Security Limited (**Scout** or the **Company**) is a listed public company limited by shares, domiciled and incorporated in Australia. These are the consolidated financial statements and notes of Scout and controlled entities (collectively the **Group**). The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. The Group is a for-profit entity and is primarily involved in the design, manufacture and sales of security systems.

The separate financial statements of Scout, as the parent entity, have not been presented with this financial report as permitted by the *Corporations Act 2001* (Cth).

22.1.2 Basis of accounting

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board (**AAS Board**) and International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**), and the *Corporations Act 2001* (Cth).

Australian Accounting Standards (**AASBs**) set out accounting policies that the AAS Board has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with AASBs ensures that the financial statements and notes also comply with IFRS as issued by the IASB.

The financial statements were authorised for issue on 30 September 2020 by the directors of the Company.

22.1.3 Going Concern

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

The Group incurred a loss for the year of \$1,593,246 (2019: \$3,634,170 loss) and a net cash out-flow from operating activities of \$519,605 (2019: \$2,933,939 out-flow). As at 30 June 2020, the Company a working capital deficit of \$1,207,048 (2019: \$138,745 working capital), as disclosed in Note 9 of the Capital Management note.

The ability of the Group to continue as a going concern is dependent on the Group securing additional debt and/or equity funding and 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:

- Secured a \$2 million (AUD) convertible note facility with Institutional and Sophisticated investors of Gleneagle Securities (Aust) Pty Ltd and existing shareholders of the Group, of which \$750,000 has been drawn down subsequent to year end;
- Signed a 5-year Commercial Agreement with the Group's strategic partner Prosegur Global Alarms ROW, S.L., of USD\$500,000;
- Significant repayment of current liabilities post balance date; and
- 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.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 22 Statement of significant accounting policies

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.

22.1.4 Comparative figures

Where required by AASBs comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

22.1.5 New and Amended Standards Adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019:

- AASB 16 *Leases*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015- 2017 Cycle*
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*
- Interpretation 23 *Uncertainty over Income Tax Treatments*.

The Group also elected to adopt the following amendments early:

- AASB 2018-1 AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*

The Group had to change its accounting policies as a result of adopting AASB 16. The Group elected to adopt using the modified retrospective approach and as such the comparatives have not been restated. During the year ended 30 June 2020, the Group has adopted the practical expedient for short-term leases. As such, there was no impact to the consolidated financial report. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

22.2 Value added taxes

Value-added tax (**VAT**) is the generic term for the broad-based consumption taxes that the Group is exposed to such as: Australia (**Goods and Services Tax** or **GST**) and in the USA (**Sales Tax**), hereafter collectively referred to as GST.

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (or jurisdictional equivalent) is included as a current asset or liability in the balance sheet.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

22.3 Foreign currency transactions and balances**22.3.1 Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the legal parent entity's functional and presentation currency. The functional currency of Scout Security Inc. is the United States Dollar.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 22 Statement of significant accounting policies**22.3.2 Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the gain or loss is directly recognised in other comprehensive income, otherwise the exchange difference is recognised in the profit or loss.

22.3.3 Group companies and foreign operations

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

22.4 Use of estimates and judgments

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

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

Judgements made by management in the application of AASBs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 22.4.1.

22.4.1 Critical Accounting Estimates and Judgments

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- a. Key estimate – Taxation

Refer 4.8 in the Income Tax note.

- b. Key estimate – Inventories

Refer Note 6.1 Inventories

- c. Key estimate – Share-based payments

Refer Note 19 Share-based payments

22.4.2 Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 22 Statement of significant accounting policies**22.5 Fair Value****22.5.1 Fair Value of Assets and Liabilities**

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable AASB.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly unforced transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also considers a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

22.5.2 Fair value hierarchy

AASB 13 Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Group would change the categorisation within the fair value hierarchy only in the following circumstances:

- if a market that was previously considered active (Level 1) became inactive (Level 2 or Level 3) or vice versa; or
- if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

When a change in the categorisation occurs, the Group recognises transfers between levels of the fair value hierarchy (i.e. transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

22.5.3 Valuation techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Notes to the consolidated financial statements

for the year ended 30 June 2020

Note 22 Statement of significant accounting policies

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

22.6 New Accounting Standards and Interpretations not yet mandatory or early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Note 23 Company details**The registered office of the Company is:****Registered Office - Australia**

Street: Level 1
247 Oxford Street
Leederville WA 6007
Australia

Postal: PO Box 52
West Perth WA 6872

Registered Office – United States

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

Directors' declaration

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 16 to 57, are in accordance with the *Corporations Act 2001* (Cth) and:
 - (a) comply with Accounting Standards;
 - (b) are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in Note 22.1 to the financial statements; and
 - (c) give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the Group.
 - (d) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001* (Cth);
2. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



DAN ROBERTS

Executive Director and CEO

Dated this Wednesday, 30 September 2020



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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 subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other 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:

- a. 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 2020 and of its financial performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 22.1.2.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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- ▶ Advisors
- ▶ Accountants
- ▶ Auditors

Independent Auditor's Report

To the Members of Scout Security Limited (Continued)



Material Uncertainty Related to Going Concern

We draw attention to Note 22.1.3 in the financial report, which indicates that the Group incurred a net loss of \$1,593,246 during the year ended 30 June 2020. As stated in Note 22.1.3, these events or conditions, along with other matters as set forth in Note 22.1.3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition (Note 1.1 and 5.5)</p> <p>During the year the Group generated sales of \$3,124,846 and has unearned revenue of \$1,030,785 at balance date.</p> <p>We focused on this area as recognition of revenue under AASB 15 <i>Revenue from Contracts with Customers</i> requires significant judgement by management in identifying performance obligations, allocation of the transaction price and satisfaction of performance obligations over time or at a point in time.</p> <p>The Group has several revenue streams including product sales, subscription revenues, development fees and licensing and support fees.</p> <p>We consider this to be a key audit matter due to the judgement and estimates involved in determining when the performance obligations are met and revenue is recognised.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> – Documenting the processes and assessing the internal controls relating to revenue processing and recognition; – Reviewing the revenue recognition policy for compliance with AASB 15 <i>Revenue from Contracts with Customers</i>; – Reviewing a sample of revenue to supporting contracts to ensure revenue was recognised in line with the revenue recognition policy; – Assessing cut-off of revenue at year end and ensuring revenue has been recorded in the correct reporting period or deferred as unearned revenue; and – Assessing the appropriateness of the disclosures included in the relevant notes to the financial report.

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 2020, but does not include the financial report and our auditor's report thereon.

Independent Auditor's Report

To the Members of Scout Security Limited (Continued)



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.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 Note 22.1.2, the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Group's ability 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 Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

To the Members of Scout Security Limited (Continued)



- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2020. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

Auditor's Opinion

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.


BENTLEYS
 Chartered Accountants


MARK DELAURENTIS CA
 Partner

Dated at Perth this 30th day of September 2020

Additional Information for Listed Public Companies

The following additional information is required by the Australian Securities Exchange in respect of listed public companies.

1 Capital as at 17 September 2020.**a. Ordinary share capital**

119,211,053 ordinary fully paid shares held by 718 shareholders.

b. Unlisted Options over Unissued Shares

Number of Options	Exercise Price \$	Expiry Date
5,800,000	0.40	20 Dec 2020
500,001	0.30	7 Dec 2020
5,289,990	0.07	16 July 2024
11,589,991		

c. Performance Rights over Unissued Shares

36,000,000 performance rights have expired but not yet cancelled.

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

- **Ordinary shares:** Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.
- **Unlisted Options:** Options do not entitle the holders to vote in respect of that equity instrument, nor participate in dividends, when declared, until such time as the options are exercised or performance shares convert and subsequently registered as ordinary shares.

e. Substantial Shareholders as at 17 September 2020.

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Daniel B Roberts	7,943,397	6.66
David Shapiro	7,747,861	6.50
Alexander Gerko	6,023,997	5.05

f. Distribution of Shareholders as at 17 September 2020.

Category (size of holding)	Total Holders	Number Ordinary	% Held of Issued Ordinary Capital
1 – 1,000	26	823	0.00
1,001 – 5,000	105	346,844	0.29
5,001 – 10,000	105	877,012	0.74
10,001 – 100,000	338	13,994,137	11.74
100,001 – and over	144	103,992,237	87.23
	718	119,211,053	100.00

g. Unmarketable Parcels as at 17 September 2020

At the date of this report there were 168 shareholders who held less than a marketable parcel of shares holding 7,142 shares.

h. On-Market Buy-Back

There is no current on-market buy-back.

i. Restricted Securities

The Company has no restricted securities

Additional Information for Listed Public Companies

j. 20 Largest Shareholders — Ordinary Shares as at as at 17 September 2020

Rank	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,911,096	10.83
2.	DANIEL B 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 NOMS PTY LTD <DRP>	4,567,409	3.83
6.	DR STUART LLOYD PHILLIPS + MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/F A/C>	3,285,000	2.76
7.	JARVISBROWN SUPER PTY LTD <JARVIS BROWN SF A/C>	2,906,273	2.44
8.	AMAZON.COM NV INVESTMENT HOLDINGS LLC	2,731,592	2.29
9.	CITICORP NOMINEES PTY LIMITED	2,428,484	2.04
10.	KINGSLANE PTY LTD <CRANSTON SUPER PENSION A/C>	2,425,000	2.03
11.	MRS EMMA GAYE QUAYLE	2,400,000	2.01
12.	FARRIS CORPORATION PTY LTD <THE PETER FARRIS SUPER A/C>	2,000,000	1.68
13.	MR JAMES MATTOX	1,737,705	1.46
14.	GRAVITY TANK INC.	1,581,684	1.33
15.	SUNNYIT PTY LTD <SUNNYIT SUPERANNUATION A/C>	1,500,000	1.26
16.	CHAD SMITH	1,324,944	1.11
17.	SANDHURST TRUSTEES LTD <EQUIT INV DRAGONFLY A/C>	1,277,023	1.07
18.	UBET INVESTMENTS PTY LTD <FISHER FAMILY ACCOUNT>	1,270,467	1.07
19.	MR GUNTHER GROBLER	1,250,000	1.05
20.	BARK (NSW) PTY LTD <BARK A/C>	1,156,000	0.97
TOTAL		68,467,932	57.44

k. Unquoted Securities Holders Holding More than 20% of the Class as at 17 September 2020

■ Unlisted Options (Exercise price \$0.30, Expiry Date: 7.12.20)

Name	Number of Unquoted Securities	% Held of Unquoted Security Class
DDM DEVELOPMENT PTY LTD <THE DDM DEVELOPMENT A/C>	500,001	100.00
TOTAL	500,001	100.00
TOTAL UNLISTED OPTIONS	500,001	

■ Unlisted Options (Exercise price \$0.40, Expiry Date: 20.12.20)

Name	Number of Unquoted Securities	% Held of Unquoted Security Class
ARMADA CAPITAL & EQUITIES PTY LTD	3,450,000	59.48
ZENIX NOMINEES PTY LTD	1,500,000	25.86
TOTAL	4,950,000	85.34
TOTAL UNLISTED OPTIONS	5,800,000	

Additional Information for Listed Public Companies

■ *Unlisted Options (Exercise price \$0.07, Expiry Date: 16.07.24)*

Name	Number of Unquoted Securities	% Held of Unquoted Security Class
ACACIA CAPITAL PTY LIMITED	1,153,621	21.81
TOTAL	1,153,621	21.81
TOTAL UNLISTED OPTIONS	5,289,990	

2 The Company Secretary is Stuart Usher.

3 **Principal registered office**

As disclosed in Note 23 Company details on page 57 of this Annual Report.

4 **Registers of securities**

As disclosed in the Corporate directory on page i of this Annual Report.

5 **Stock exchange listing**

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited, As disclosed in the Corporate directory on page i of this Annual Report.

6 **Use of funds**

The Company has used its funds in accordance with its initial business objectives.

