



Scout Security Limited

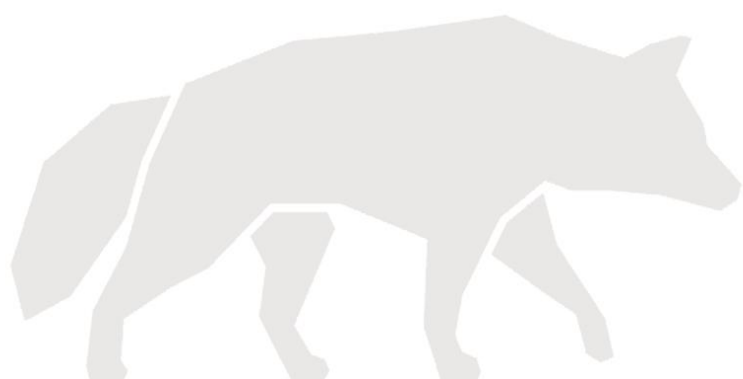
ABN 13 615 321 189

and its controlled entities

APPENDIX 4D

Interim Financial Report

31 December 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

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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

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16 Milligan Street
Perth WA 6000

Share Registry

Advanced Share Registry Limited
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NEDLANDS WA 6009

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Email: admin@advancedshare.com.au

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Securities Exchange

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Perth WA 6000

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ASX Code SCT

Bankers

Westpac Banking Corporation
130 Rokeby Road
Subiaco WA 6008

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SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

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Results for Announcement to the Market

for the half-year Ended 31 December 2020

1 REPORTING PERIOD (item 1)			
■ Report for the period ended:	31 December 2020		
■ Previous corresponding period is half-year ended:	31 December 2019		

2 RESULTS FOR ANNOUNCEMENT TO THE MARKET		Movement	Percentage %	Amount \$
■ Revenues from ordinary activities (item 2.1)		Decrease	(43.72) to	881,447
■ Loss from ordinary activities after tax attributable to members (item 2.2)		Increase in Losses	92.43 to	(2,207,818)
■ Loss from after tax attributable to members (item 2.3)		Increase in Losses	92.43 to	(2,207,818)
a. Dividends (items 2.4 and 5)			Amount per Security ¢	Franked amount per security %
■ Interim dividend			nil	n/a
■ Final dividend			nil	n/a
■ Record date for determining entitlements to the dividend (item 2.5)		n/a		
b. Brief explanation of any of the figures reported above necessary to enable the figures to be understood (item 2.6):				
1. Revenue represents interest earned and service revenue.				

3 DIVIDENDS (item 6) AND RETURNS TO SHAREHOLDERS INCLUDING DISTRIBUTIONS AND BUY BACKS	
Nil.	
a. Details of dividend or distribution reinvestment plans in operation are described below (item 6):	
Not applicable	

4 RATIOS		Current period	Previous corresponding period
a. Financial Information relating to 4b:		\$	\$
Earnings for the period attributable to owners of the parent		(2,207,818)	(1,147,353)
Net assets/(liabilities)		1,200,971	(1,413,649)
Less: Intangible assets		-	-
Net tangible assets/(liabilities)		1,200,971	(1,413,649)
		No.	No.
Fully paid ordinary shares		143,465,270	119,211,053
b. Net tangible assets/ (liability) backing per share (cents) (item 3):		0.837	(1.186)

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Results for Announcement to the Market

for the half-year Ended 31 December 2020

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

a. Control gained over entities

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

b. Loss of control of entities

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

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

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

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

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

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

Current period	Previous corresponding period
N/A	N/A

7 The financial information provided in the Appendix 4D is based on the interim final report (attached), which has been prepared in accordance with Australian Accounting Standards.**8** The report is based on accounts which are have been reviewed by the Company's independent auditor (item 9).

Directors' report

Your directors present their report on the consolidated entity, consisting of Scout Security Limited (**Scout Security or the Company**) and its controlled entities (collectively **the Group**), for the half-year ended 31 December 2020.

1. Directors

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

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

2. Operating and financial review

2.1. Operations review

During the half year period, the Scout team transitioned from signing white label agreements with prepayments into execution mode, building towards early CY21 product launches on multiple continents.

Revenue to date has been generated in waves, coming in the form of large development fees and pre-payments. However, as product launches are implemented, the Company expects the revenue mix will change, transitioning from development fee revenues to product and service revenues. Initially Scout expects to see an increase in hardware sales, and then ultimately an increase in recurring monthly subscription revenue. Revenue in H1 FY21 was \$0.9 million, a decrease of \$0.7 million from H1 FY20 reflecting the emphasis on preparations for product launches in the most recent period.

EBITDA in the period was a loss of \$989,105 (H1 FY20 loss \$1,147,437). Expenditure was consistent with the previous period, apart from an increase of legal and regulatory fees totalling approximately \$170,000 which related to engagement of corporate advisers, execution of convertible notes and all the associated legal costs of such agreements and additional costs in connection with the new partnership agreements.

At 31 December 2020, following a successful capital raising, the Company had a cash balance of \$2.3 million which is sufficient capital to meet the demands of servicing existing and targeted potential customers, while continuing to translate development work revenue into hardware and subscription revenue. Pro-forma for the completion of the SPP and underwriting in January, the Company's cash balance would have been \$2.8 million.

Strategy Delivery

Scout has made considerable progress in the two years since changing its strategic path from B2C to seeking to scale via white label partnerships (B2B). This journey began when the Company secured commercial agreements with Zego and Stanley Black & Decker as cornerstone white label partners – overlapping with a strategic investment from Prosegur to power the growth of the DIY business.

Along the way, and through the depths of the COVID-19 pandemic that delayed the Stanley Black & Decker expansion plans, the Zego-Paylease installations continued and the Company advanced aggressively with Prosegur, securing both a commercial program launch in a new country and a sizable development fee. The Company was also able to attract a new telco partner in a complementary vertical to join its white label program and has since announced a sizable set of orders from them with a view to a near-term market launch.

Two years on from establishing white label as the Company's primary growth driver, H1 FY21 has been a period of intense execution for Scout. The Company's efforts have been focussed on market launches with multiple multi-billion-dollar partners on two different continents. The first of these launches is now imminent.

With four major partners secured, Scout has been able to demonstrate the market demand for both its products and its white label model, which allows partners to defy typical enterprise development cycles.

Directors' report**Outlook**

Scout holds a positive outlook for growth in CY21, having announced the first set of orders for upcoming partner launches and with an expectation of additional orders to follow. Initial hardware sales will be reflected in Q3 FY21 (i.e the current quarter) and should grow through the calendar year. In the second half of the calendar year, the Company expects these hardware sales to result in increasing recurring revenue.

As the operations team works with existing partners to scale their programs across CY21, the Scout team is working to bring on additional sales resources to accelerate pipeline conversion of new white label partners. The Company believes the current pace of adding one or two major white label partners per year can be accelerated with additional team members building relationships concurrent to the existing team. The Company will put extra emphasis on the telco industry in CY21, given the alignment of the Scout white label model with the needs of major telco providers in the US and globally.

2.2. Financial Review**a. Operating results**

For the half-year ended 31 December 2020 the Group delivered a loss before tax of \$2,207,818 (31 December 2019: \$1,147,353 loss), representing a reduction in losses.

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. Details of the Company's assessment in this regard can be found in Note 1.1.2 Statement of significant accounting policies: Going Concern on page 10.

2.3. Events Subsequent to Reporting Date

On 11 February 2021, the Company issued 2,207,407 sharefall shares at \$0.135 per share under a securities purchase plan approved by shareholders at a General Meeting held on 1 February 2021.

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

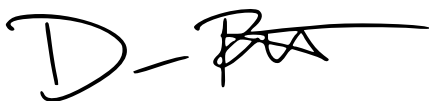
2.4 Future Developments, Prospects and Business Strategies

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

3. Auditor's independence declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* (Cth) for the half-year ended 31 December 2020 has been received and can be found on page 5 of the interim financial report.

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

**DANIEL ROBERTS**

Chief Executive Officer

Dated this Friday, 26 February 2021



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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 review of the financial statements of Scout Security Limited for the half-year ended 31 December 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 review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully

BENTLEYS
Chartered Accountants

MARK DELAURENTIS .CA
Partner

Dated at Perth this 26th day of February 2021



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- Advisors
- Accountants
- Auditors

APPENDIX 4D

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SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2020

	Note	6 months to 31 Dec 2020 \$	6 months to 31 Dec 2019 \$
<i>Continuing operations</i>			
Revenue	3.1	881,447	1,566,279
Cost of sales		(171,246)	(755,860)
Gross profit		710,201	810,419
Other income	4	196,286	31
Consulting and professional fees		(434,466)	(470,703)
Depreciation and amortisation expense		-	(13,555)
Employee expenses		(765,171)	(737,086)
Rental costs		(71,149)	(69,753)
Share-based payments	18	(418,350)	-
Information technology costs		(124,437)	(147,248)
Finance costs	4	(800,363)	(30,824)
Sales and marketing		(16,891)	(291,337)
Shipping and postage		(4,090)	(8,539)
Travel and entertainment		(682)	(31,201)
Inventory written off		(204,477)	-
Other expenses		(274,229)	(157,557)
Loss before tax		(2,207,818)	(1,147,353)
Income tax expense		-	-
Net loss for the half-year		(2,207,818)	(1,147,353)
<i>Other comprehensive income, net of income tax</i>			
■ Items that may be reclassified subsequently to profit or loss			
□ Foreign currency movement		106,486	(84)
Other comprehensive income for the half-year, net of tax		106,486	(84)
Total comprehensive income attributable to members of the parent entity		(2,101,332)	(1,147,437)
<i>Earnings per share:</i>			
Basic and diluted loss per share (cents per share)	5	(1.80)	(0.96)

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

Condensed consolidated statement of financial position

as at 31 December 2020

	Note	31 Dec 2020 \$	30 June 2020 \$
<i>Current assets</i>			
Cash and cash equivalents	6	2,279,015	62,310
Trade and other receivables	7	233,496	19,963
Inventories	8	574,546	885,726
Other current assets	9	63,289	68,257
Total current assets		3,150,346	1,036,256
<i>Non-current assets</i>			
Financial assets	10	1,398,750	-
Total non-current assets		1,398,750	-
Total assets		4,549,096	1,036,256
<i>Current liabilities</i>			
Trade and other payables	11	737,554	1,212,519
Unearned revenues	12	1,075,606	1,030,785
Total current liabilities		1,813,160	2,243,304
<i>Non-current liabilities</i>			
Borrowings	13	712,500	206,601
Financial liabilities	14	822,465	-
Total non-current liabilities		1,534,965	206,601
Total liabilities		3,348,125	2,449,905
Net assets/(liabilities)		1,200,971	(1,413,649)
<i>Equity</i>			
Issued capital	15.1	15,137,653	12,179,075
Reserves		5,159,842	3,295,982
Accumulated losses		(19,096,524)	(16,888,706)
Total equity		1,200,971	(1,413,649)

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

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Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2020

	Note	Contributed equity	Foreign Currency Translation Reserve	Share-based Payments Reserve	Accumulated Losses	Total equity
		\$	\$	\$	\$	\$
<i>Balance at 1 July 2019</i>		12,179,075	31,780	3,249,816	(15,295,460)	165,211
Loss for the half-year attributable owners of the parent		-	-	-	(1,147,353)	(1,147,353)
Other comprehensive income for the half-year attributable owners of the parent		-	(84)	-	-	(84)
Total comprehensive income for the half-year attributable owners of the parent		-	(84)	-	(1,147,353)	(1,147,437)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the half-year (net of costs)		-	-	-	-	-
<i>Balance at 31 December 2019</i>		12,179,075	31,696	3,249,816	(16,442,813)	(982,226)
<i>Balance at 1 July 2020</i>		12,179,075	46,166	3,249,816	(16,888,706)	(1,413,649)
Loss for the half-year attributable owners of the parent		-	-	-	(2,207,818)	(2,207,818)
Other comprehensive income for the half-year attributable owners of the parent		-	106,486	-	-	106,486
Total comprehensive income for the half-year attributable owners of the parent		-	106,486	-	(2,207,818)	(2,101,332)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the half-year (net of costs)	15.1.1	2,958,578	-	-	-	2,958,578
Options granted during the half-year	15.2	-	-	1,339,024	-	1,339,024
Performance shares	15.3	-	-	418,350	-	418,350
<i>Balance at 31 December 2020</i>		15,137,653	152,652	5,007,190	(19,096,524)	1,200,971

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

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2020

	Note	6 months to 31 Dec 2020 \$	6 months to 31 Dec 2019 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		1,206,970	1,854,665
Interest received		87	31
Interest paid		(19,466)	(30,824)
Payments to suppliers and employees		(2,466,923)	(2,099,017)
Net cash used in operating activities		(1,279,332)	(275,145)
<i>Cash flows from investing activities</i>			
Net cash used in investing activities		-	-
<i>Cash flows from financing activities</i>			
Proceeds from issue of shares		3,000,000	-
Payments for capital raising costs		(229,080)	-
Proceeds from convertible debt securities		731,250	-
Proceeds from borrowings		-	500,000
Net cash provided by financing activities		3,502,170	500,000
Net increase/(decrease) in cash held		2,222,838	224,855
Cash and cash equivalents at the beginning of the half-year		62,310	365,314
Change in foreign currency held		(6,133)	-
Cash and cash equivalents at the end of the half-year	6	2,279,015	590,169

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

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2020

Note 1. Statement of significant accounting policies

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

The financial statements were authorised for issue on 26 February 2021 by the directors of the Company.

1.1. Basis of preparation

This interim financial report is intended to provide users with an update on the latest annual financial statements of Scout Security Limited and controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in combination with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the half-year.

1.1.1. Statement of compliance

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

1.1.2. Going Concern

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

The Group incurred a loss for the half-year of \$2,207,818 (31 December 2019: \$1,147,353 loss) and a net operating cash out-flow of \$1,279,332 (31 December 2019: \$275,145 out-flow). As at 31 December 2020 the Group had a working capital of \$1,337,186 (30 June 2020: \$1,207,048 deficiency) which includes \$1,075,606 (30 June 2020: \$1,030,785) of unearned revenues.

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

- The Company has 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 during the period, with the remaining \$1.25m available for drawdown at the Company's discretion;
- The company has raised approximately \$3.2 million (AUD) during the period, including \$202,000 which was receipted post half-year end; and
- The addition of planned new products and customers within the year that should provide additional hardware and recurring revenue streams.

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

1.1.3. Use of estimates and judgments

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

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

The judgements, estimates and assumptions applied in the condensed financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2020.

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2020

Note 1. Statement of significant accounting policies**1.1.4. Performance rights**

The Company issued 6,000,000 performance rights to Mr Daniel Roberts which convert to ordinary fully paid shares on a one for one basis following the achievement of the performance milestones before the expiry date. The vesting conditions are detailed in note 18.2.1.1. The fair value of the performance rights with market conditions are performed using Monte Carlo simulation option pricing model and the fair value of the performance rights with no market conditions are based on the share price as at the valuation date adjusted for the probability of the non-market vesting conditions being met. The assumptions of the valuations are detailed in note 18.4. The Group has recognised the fair value as share-based payments in the profit and loss during the half-year ended 30 December 2020.

1.2. New and Amended Standards Adopted by the Group

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

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

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

Street: Level 1
247 Oxford Street
Leederville WA 6007
Australia

Postal: PO Box 52
West Perth WA 6872

Registered Office – United States

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

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SCOUT SECURITY LIMITED

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Notes to the condensed consolidated financial statements for the half-year ended 31 December 2020

Note 3. Revenue and other income

3.1. Revenue

Revenue

Product sales

Subscription revenue

Development fees

Licensing and support fees

	6 months to 31 Dec 2020 \$	6 months to 31 Dec 2019 \$
	162,075	765,614
	278,980	296,530
	426,555	504,135
	13,837	-
	881,447	1,566,279

Note 4. Loss before income tax

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

4.1. Other Income

■ Interest income

■ Government loans forgiven

	6 months to 31 Dec 2020 \$	6 months to 31 Dec 2019 \$
	87	31
	196,199	-
	196,286	31

4.2. Finance costs:

■ Bank interest

■ Interest – Convertible note

■ Interest – Embedded Derivative

■ Interest – Unwinding of transaction costs

	3,458	30,824
	16,008	-
	321,384	-
	459,513	-
	800,363	30,824

Note 5. Earnings per share (EPS)

5.1. Reconciliation of earnings to profit or loss

Loss for the half-year

Loss used in the calculation of basic and diluted EPS

	6 months to 31 Dec 2020 \$	6 months to 31 Dec 2019 \$
	(2,207,818)	(1,147,353)
	(2,207,818)	(1,147,353)

5.2. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS

	6 months to 31 Dec 2020 No.	6 months to 31 Dec 2019 No.
	122,704,931	119,211,053

5.3. Earnings per share

Basic EPS (cents per share)

	6 months to 31 Dec 2020 ¢	6 months to 31 Dec 2019 ¢
	(1.80)	(0.96)

5.4. As at 31 December 2020 the Group has 14,833,468 unissued shares under options (31 December 2019: 27,466,668). The Group does not report diluted earnings per share on losses generated by the Group.

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2020

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

Cash at bank

31 Dec 2020	30 June 2020
	\$
2,279,015	62,310
2,279,015	62,310

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

Trade receivables

Other receivables

31 Dec 2020	30 June 2020
	\$
31,496	19,963
202,000	-
233,496	19,963

Note 8. Inventories**8.1. Current**

Finished goods

Components

31 Dec 2020	30 June 2020
	\$
548,476	539,010
26,070	346,716
574,546	885,726

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

Other current assets

31 Dec 2020	30 June 2020
	\$
63,289	68,257
63,289	68,257

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

- Facilities, broker and T1 investors Options
- Fees
- Convertible note – Embedded Derivative at initial recognition
- Unwound during the period

Note	31 Dec 2020	30 June 2020
		\$
10.2	1,220,073	-
	70,000	-
	568,190	-
	(459,513)	-
	1,398,750	-

10.2. The transaction costs were incurred in relation to the raising of funds under the convertible note facility (note 13.2). These costs are required to be offset against the convertible note liability and amortised over the term of the convertible note and are treated as finance costs in profit or loss.

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

Trade payables

Sundry payables and accrued expenses

31 Dec 2020	30 June 2020
	\$
506,783	960,671
230,771	251,848
737,554	1,212,519

**Notes to the condensed consolidated financial statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020****Note 12. Unearned revenues****12.1. Current***Unsecured*

Unearned revenues

	31 Dec 2020	30 June 2020
		\$
	1,075,606	1,030,785
	1,075,606	1,030,785

Note 13. Borrowings**a. Current**

Government loans

Convertible notes – face value

	31 Dec 2020	30 June 2020
	\$	\$
13.1	-	206,601
13.2	712,500	-
	712,500	206,601

13.1. 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 has been forgiven and was recognised as revenue during the period.

13.2. On 16 July 2020, the Company has entered into a Convertible Note Deed ("Note") with clients of Gleneagle Securities (Aust) Pty Limited ("Gleneagle") and existing shareholders of the Company, to raise up to \$2 million.

The investors in the Note include institutional and sophisticated investors. The key features of the Note are summarised below:

- **Term:** The term of the Note is 2 years.
- **Conversion:** Each Note may be converted into one fully paid ordinary share in the capital of the Company at the Conversion Price (below).
- **Conversion Price:** The conversion price of the Note will be the lower of:
 - 7c (which is a 40% premium to Scout's last traded price of 5c) and;
 - a 20% discount to any future equity issuance by the Company, subject to a floor price of 3c.
- **Variation to Conversion Price:** In the event the Company undertakes a bonus issue, rights issue or capital reorganization (including consolidation, subdivision, reduction or return), the conversion price (including the floor price) will be varied to the extent applicable and subject to the ASX Listing Rules to place investors in substantially the same position as they would have been had no such event occurred.
- **Facility Options:** In consideration for participation in the Note, Investors will be paid a Facility Fee in the form of 2,980,276 Options (issued proportionate to their individual investment).
- **Initial Installment:** Scout will draw \$750,000 in an Initial Installment at completion:
 - In consideration for participation in the Initial Installment, Investors will be issued a total of 8,035,715 Options (proportionate to their investment in the Initial Installment), Shareholders approved the issue at the Annual General Meeting held on 23 December 2020.
 - The Investors will have the right to convert the Initial Installment at any time.
- **Subsequent Installments:** Scout may draw, but is under no obligation to draw, Subsequent Installments totaling \$1.25 million. Until such time as Scout elects to draw a Subsequent Installment, Scout will be under no obligation to issue any securities beyond those issued to investors under the Initial Installment and will not be penalized in any way should it elect not to draw any Subsequent Installment.
 - It is a condition precedent to Scout electing to draw a Subsequent Installment that it has sufficient placement capacity at the time the drawing is made to issue the Subsequent Installment, including all shares and options to be issued in connection with the Subsequent Installment.

Note 13 Borrowings (continued)

- Subsequent Installments may be drawn monthly on 21 days' notice in installments of either \$250,000 or \$500,000, subject to Scout's share price being greater than 80% of the conversion price (determined based on the conversion price as at the date of the drawdown request and the proposed issue date of the Note, respectively).

- In consideration for participation a Subsequent Installment, Investors will be issued a number of Options proportionate to their investment, calculated on the basis that 2 Options will be issued for the equivalent of 1 converted share, with the potential of issuing a total of 35,714,286 Options.

- The Company may elect to redeem any Subsequent Installments ahead of any conversion rights.

- **Interest:** Interest of 5% p.a. is payable on drawn funds, accruing daily and payable quarterly.
- **Gleneagle Fee:** A further 2,384,221 Options will be issued to Gleneagle and supporting brokers as part of their fee.
- **Option terms:** All Options in the transaction will be exercisable at 7c and will expire on 16 July 2024.

13.3. \$37,500 of the initial instalment of \$750,000 were converted to shares during the half-year ended 31 December 2020.

Note 14. Financial liabilities

Note	31 Dec 2020	30 June 2020
		\$
14.1. Non-current		
Convertible note – Embedded Derivative liability	822,465	-
	822,465	-

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

Note 15. Equity

15.1. Issued capital	Note	6 months to 31 Dec 2020 No.	12 months to 30 June 2020 No.	6 months to 31 Dec 2020 \$	12 months to 30 June 2020 \$
Fully paid ordinary shares at no par value		143,465,270	119,211,053	15,137,653	12,179,075
15.1.1. Ordinary shares					
At the beginning of the period		119,211,053	119,211,053	12,179,075	12,179,075
Shares issued during the half-year					
■ Conversion of convertible debt securities @ \$0.07 per share		535,714	-	37,500	-
■ Embedded derivative component on conversion of convertible debt		-	-	67,109	-
■ Tranche 1 Placement @ \$0.135 per share		13,723,980	-	1,852,737	-
■ Share purchase plan @ \$0.135 per share		1,496,282	-	202,000	-
■ Tranche 2 Placement @ \$0.135 per share		8,498,241	-	1,147,263	-
Transaction costs relating to share issues					
■ Cash		-	-	(229,080)	-
■ Equity based	18	-	-	(118,951)	-
At reporting date		143,465,270	119,211,053	15,137,653	12,179,075

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2020

Note 15 Equity (continued)

	Note	6 months to 31 Dec 2020 No.	12 months to 30 June 2020 No.	6 months to 31 Dec 2020 \$	12 months to 30 June 2020 \$
15.2. Options					
Options		14,833,468	27,300,001	4,588,840	3,249,816
At the beginning of the period		27,300,001	42,972,175	3,249,816	3,249,816
Options issued/(lapsed) during the year:					
■ Options (lapsed)		(27,300,001)	(16,005,508)	-	-
■ Issue of loan options	15.2.1	-	333,334	-	-
■ Issue of facility options	18	2,980,276	-	271,351	-
■ Issue of brokers options	18	2,384,221	-	217,080	-
■ Issue of advisor options	18	1,433,256	-	118,951	-
■ Issue of T1 investor options	18	8,035,715	-	731,642	-
At reporting date		14,833,468	27,300,001	4,588,840	3,249,816

15.2.1. 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.

15.2.2. The Company entered into an agreement to issue 1,433,256 options to Gleneagle in consideration for lead manager and corporate advisory services provided by Gleneagle in connection with the Placement under the Placement Mandate letter. The issue was approved by the Shareholders in the Annual General Meeting held on 23 December 2020.

	Note	6 months to 31 Dec 2020 No.	12 months to 30 June 2020 No.	6 months to 31 Dec 2020 \$	12 months to 30 June 2020 \$
15.3. Performance shares					
Performance shares		42,000,000	36,000,000	418,350	-
At the beginning of the period		36,000,000	36,000,000	-	-
Performance shares movement during the half-year:					
■ Issued	18.2.1.1	6,000,000	-	418,350	-
At reporting date		42,000,000	36,000,000	418,350	-

Note 16. Events subsequent to reporting date

On 11 February 2021, the Company issued 2,207,407 shortfall shares at \$0.135 per share under a share purchase plan approved by shareholders at a General Meeting held on 1 February 2021.

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

Note 17. Contingent liabilities

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

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2020

Note 18. Share-based payments

Note	6 months to 31 Dec 2020 \$	6 months to 31 Dec 2019 \$
18.1. Share-based payments:		
▪ Recognised in profit and loss (expenses)	418,350	-
▪ Recognised in equity (transaction costs)	118,951	-
▪ Recognised in financial assets	1,220,073	-
Gross share-based payments	1,757,374	-

18.1. Share-based payments:

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

Gross share-based payments

18.2. Share-based payment arrangements in effect during the half-year

18.2.1. Recognised in profit or loss

18.2.1.1. Performance Shares

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

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

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2020

Note 18 Share-based payments (continued)**18.2.2. Recognised in equity****18.2.2.1. Advisor Options**

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

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

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

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

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

18.2.3.2. Broker Options

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

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

18.2.3.3. T1 Investor Options

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

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

18.3. Fair value of options granted during the half-year

The weighted average fair value of options granted during the half-year was \$0.090 (31 December 2019: \$nil). These values were calculated using the Black-Scholes option pricing model, applying the following inputs to options:

Note Reference	18.2.2.1	18.2.3.1	18.2.3.2	18.2.3.3
Grant date:	23.12.2020	23.12.2020	23.12.2020	23.12.2020
Grant date share price:	\$0.120	\$0.120	\$0.120	\$0.120
Option exercise price:	\$0.135	\$0.070	\$0.070	\$0.070
Number of options issued:	1,433,256	2,980,276	2,384,221	8,035,715
Remaining life (years):	4.0	3.5	3.5	3.5
Expected share price volatility:	105%	105%	105%	105%
Risk-free interest rate:	0.217%	0.159%	0.159%	0.159%
Value per option	\$0.0809	\$0.0910	\$0.0910	\$0.0910

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 condensed consolidated financial statements

for the half-year ended 31 December 2020

Note 18 Share-based payments (continued)**18.4. Fair value of performance rights granted during the half-year**

Class of Performance Right	A	B	C	D
Grant / valuation date	23.12.2020	23.12.2020	23.12.2020	23.12.2020
Expiry date	30.06.2023	30.06.2023	30.06.2023	30.06.2023
Vesting conditions	Non-Market Vesting	Non-Market Vesting	Market Vesting	Market Vesting
Grant date share price	\$0.120	\$0.120	\$0.120	\$0.120
Exercise price:	Nil	Nil	Nil	Nil
Probability	50%	40%	N/A	N/A
Value per right	\$0.1200	\$0.1200	\$0.0926	\$0.0783
Number of rights issued	1,500,000	1,500,000	1,500,000	1,500,000
Performance rights vesting	750,000	600,000	1,500,000	1,500,000
Value per class	\$90,000	\$72,000	\$138,900	\$117,450
Expense for the period	\$90,000	\$72,000	\$138,900	\$117,450

Note 19. Operating segments

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

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

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

APPENDIX 4D

Interim Financial Report
31 December 2020

SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

Directors' declaration

The Directors of the Company declare that:

1. The condensed financial statements and notes, are in accordance with the *Corporations Act 2001* (Cth) and:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the financial position as at 31 December 2020 and of the performance for the half-year ended on that date of the Company.
2. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



DAN ROBERTS

Director

Dated this Friday, 26 February 2021



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Independent Auditor's Review Report

To the Members of Scout Security Limited

Conclusion

We have reviewed the accompanying half-year financial report of Scout Security Limited ("the Company") and Controlled Entities ("the Group") which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other selected explanatory notes, and the directors' declaration.

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

- a. Giving a true and fair view of the Scout Security Limited financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.

Basis for Conclusion

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

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



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Independent Auditor's Review ReportTo the Members of Scout Security Limited (Continued)**Responsibility of the Directors for the Financial Report**

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

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BENTLEYS
Chartered Accountants

MARK DELAURENTIS CA
Partner

Dated at Perth this 26th day of February 2021

