



Scout Security Limited

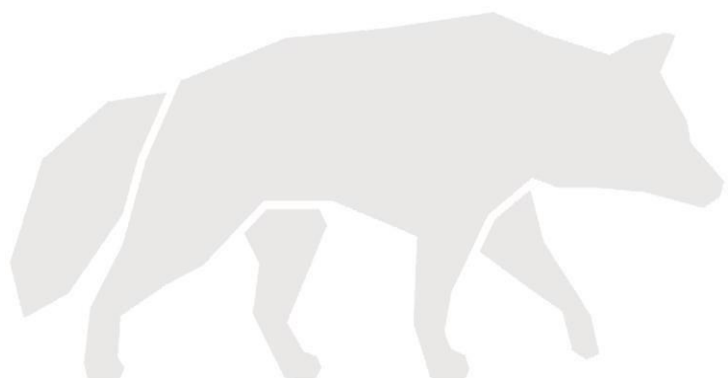
ABN 13 615 321 189

and its controlled entities

APPENDIX 4D

Interim Financial Report

31 December 2022



Corporate directory**Current Directors**

Mr Daniel Roberts	<i>Executive Director</i>	Tenure Appointed August 2017
Mr Martin Pretty	<i>Non-executive Chairman</i>	Appointed July 2020
Mr David Shapiro	<i>Non-executive Director</i>	Appointed August 2017
Mr Anthony Brown	<i>Non-executive Director</i>	Appointed August 2017
Mr. Ryan McCall	<i>Executive Director</i>	Appointed February 1 2023
Mr Solomon Majteles	<i>Non-executive Director</i>	Appointed August 2017 (resigned 31 December 2022)

Company Secretary

Ms. Kim Clark Effective July 4, 2022

Registered Office - Australia

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210 George St.
Sydney, NSW 2000
Telephone: +1-844-287-2688
Email: investors@scoutalarm.com
Website: www.scoutalarm.com

Registered Office – United States

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

Auditors

Hall Chadwick WA Audit Pty Ltd
283 Rokeby Road
SUBIACO WA 6008
Telephone: +61 (0)8 9426 0666

Solicitors

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

Share Registry

Advanced Share Registry Limited
Street + Postal: 110 Stirling Highway
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Telephone: 1300 113 258 (within Australia)
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Email: admin@advancedshare.com.au
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Securities Exchange

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Perth WA 6000
Telephone: 131 ASX (131 279) (within Australia)
Telephone: +61 (0)2 9338 0000
Facsimile: +61 (0)2 9227 0885
Website: www.asx.com.au
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Bankers

Westpac Banking Corporation
130 Rokeby Road
Subiaco WA 6008

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Results for Announcement to the Market

for the half-year ended 31 December 2022

1

REPORTING PERIOD (item 1)

✓ Report for the period ended:

31 December 2022

✓ Previous corresponding period is half-year ended:

31 December 2021

2

RESULTS FOR ANNOUNCEMENT TO THE MARKET

✓ Revenues from ordinary activities (item 2.1)

✓ Loss from ordinary activities after tax attributable to members (item 2.2)

✓ Loss from after tax attributable to members (item 2.3)

Movement

Decrease

Increase in Losses

Increase in Losses

Percentage %

64.41

0.27

0.27

to

to

to

Amount \$

860,072

(1,923,552)

(1,923,552)

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 BUYBACKS

Nil.

a. Details of dividend or distribution reinvestment plans in operation are described below (item 6):

Not applicable

4

RATIOS

a. Financial Information relating to 4b:

Earnings for the period attributable to owners of the parent

Net assets/(liabilities)

Less: Intangible assets

Net tangible assets/(liabilities)

No.

Fully paid ordinary shares

Current period

\$

(1,923,552)

(2,242,186)

-

(2,242,186)

230,394,648

(0.973)

Previous corresponding period

\$

(1,918,397)

(1,652,593)

(1,652,593)

No.

150,854,172

(1.095)

b. Net tangible assets/ (liability) backing per share (cents) (item 3):

Results for Announcement to the Market

for the half-year ended 31 December 2022

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)	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 2022.

1. Directors

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

- | | | |
|---|---------------------|--|
| ✓ | Mr Martin Pretty | Non-executive Chairman (<i>appointed Non-executive director on 27 July 2020, appointed Non-executive Chairman on 23 August 2021</i>) |
| ✓ | Mr Daniel Roberts | Executive Director |
| ✓ | Mr David Shapiro | Non-executive Director |
| ✓ | Mr Anthony Brown | Non-executive Director |
| ✓ | Mr Ryan McCall | Executive Director (appointed 1 February 2023) |
| ✓ | Mr Solomon Majteles | Non-executive Director (resigned effected 31 December 2022) |

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 H1 FY23, Scout:

- Earned subscription revenue of \$430k (72% increase from H1 FY22)
- Earned revenue of \$860k (-64% from H1 FY22), primarily due to reduction in periodic, lower-margin hardware sales
- Earned gross profit of \$487k (-43% from H1 FY22)
- Recorded a net loss of \$1.92m (in line with H1 FY22)
- Continued to gather momentum with its telco rollout, averaging ~500 monthly net new customer adds with over 1,000 added some months. Additional sales channels activating imminently
- Made encouraging progress under the Statement of Work signed with Lumen Technologies, Inc ((NYSE: LUMN) "Lumen"), a US\$4bn market cap, Fortune 500 full-service US telco with 5 million broadband subscribers and US\$20bn in annual revenue

Financial Performance

During the period, the Company's annualised recurring revenue (ARR) grew to \$1.1 million, an increase of 174% compared to H1 FY22 despite the planned conclusion of the Company's sales partnership with smart home device and service provider Zego, which contributed \$250k to ARR in the prior period. Growth in Scout's monthly recurring revenue (MRR) reflects sell-through and activation of Scout-powered security systems. Over time, growth in MRR also decreases the significance of hardware purchase orders to the Company's cash flows.

The Company is executing a plan to acquire former Zego customers who retain familiarity with Scout's products and services via a joint referral agreement signed in January 2023 which will see each company receive 20% of referred sales from the other. The relationship concluded because Zego had a change in focus, as they recently exited the smart multi-dwelling unit (MDU) markets where they placed the Scout security systems and cameras.

The main driver of expenditure growth against the same period last financial year were additional employee expenses due to the Company expanding its customer service team to meet the increase in customers from its white label partners, as well as the hiring of a new CEO, CFO, and COO, though this cost was offset by eliminating outsourced services. With these key hires, Scout is in a position to achieve operating leverage as recurring revenue grows. The Company also incurred \$294k in camera hardware expenses (intended for B2B2C sales) without yet realising the corresponding sales revenue; however, Scout expects this to come through in H2 FY23.

In September 2022, Scout successfully completed a \$0.93 million placement and launched a partially underwritten \$1.38 million rights issue. The placement of 31.0 million new shares at \$0.03/share was made to professional and sophisticated

investor clients of Sequoia Corporate Finance Pty Ltd. One free attaching option was issued for every two shares issued under the placement. Each option has a \$0.07 exercise price and an expiry date of 16 July 2024.

The placement was followed by a non-renounceable rights issue on a 1-for-4 basis on the expanded capital base at the same terms as the placement to raise up to a further \$1.38 million through the issue of 46.1 million shares and 23.05 million free attaching options. The Company received commitments for \$1.278 million under the Rights Issue via entitlements acceptances from existing investors and successfully placed the shortfall in December 2022 to raise the maximum of \$1.38 million before costs. Net proceeds of the capital raisings completed during H1 FY23 will be used to support the Company's working capital as Scout continues to scale up its home security platform rollout via white label partners.

Operational Performance and Strategy Delivery

During H1 FY23, US sales of the Scout-powered white labelled telco home security solution continued to develop. The Company's first US ISP white label partner, Windstream, continues to add approximately 500 net new customers monthly while it is developing an e-commerce solution with a launch date targeted for Q3 FY23.

During the half-year, Scout executed the largest expansion in its white label partner group to date with the signing of a Statement of Work with Lumen Technologies, Inc ((NYSE: LUMN) "Lumen"). Lumen is a US\$4bn market cap, full-service US telco with 5 million broadband subscribers, adding 20,000 new broadband subscribers monthly, and US\$20bn in annual revenue. It offers bundled services including high-speed broadband and fibre internet, entertainment, digital TV, voice and cybersecurity to residential subscribers and multi-tenant buildings. Lumen also provides data, cloud solutions, unified communications and managed services to small, medium and large business, enterprise clients and government agencies.

The contract will see Scout build out a motion sense home security app for Lumen, as part of a smart security platform buildout encompassing all functionality necessary for Lumen to provide home security services, video cloud storage and smart home controls to Lumen subscribers. The solution will leverage existing whole-home WiFi equipment from Lumen, fibre internet, Scout video products and Lumen technology licenses.

This app will bring cutting-edge WiFi sensing capability to detect motion in homes through any WiFi6 router. This will open a new addressable market for Scout of low-bandwidth users who could purchase a "light" home security system as a stepping stone that can be built up over time. The Company is pleased by its progress so far with Lumen and expects to update investors regularly as this opportunity comes to fruition.

Per the Statement of Work, Lumen will pay US\$246k (A\$357k) for design, development, and integration fees to Scout across engineering and testing milestones specified in the SOW, envisioned to span roughly 3 months. The first payment of US\$37.5k was received in the September quarter. During the December quarter, Scout and Lumen executed on the complete mobile application design as well as the build out of the API infrastructure, thus the alpha version of Lumen's Scout-powered Motion Sense Security solution is now complete and pending full pilot launch on Lumen's approval. The parties mutually agreed on an expanded scope of work in December 2022 that will yield an additional A\$76k revenue to Scout.

Scout expects to launch the smart security and control platform under Lumen's brand in the first half of CY2023, with recurring revenues to follow. Lumen represents the largest addressable subscriber base of any Scout channel partner to date in its growing US telco partner group. Scout's medium-term goal is to penetrate 10% of Lumen's 5 million subscriber base and 10% of new monthly subscribers. The solution developed for Lumen is extendable to other ISPs and telco carriers, direct and through managed WiFi resellers, that account for over 70 million homes globally.

Also during the December quarter, Scout announced plans to launch its home security platform into Australia via Amazon.com.au. Amazon is a Scout shareholder and long-time partner of the Company.

The launch commenced in late October with Scout's indoor and outdoor HD cameras. The launch price of A\$59.99 per camera includes one month of free video cloud storage. Pricing for 14-day cloud storage has been set at A\$5 per month, with all storage revenue flowing to Scout.

Scout's Amazon.com.au launch is only the first step towards the Company entering the Australian market. Discussions continue with Australian internet service providers (ISPs) and value-added resellers (VARs) to bring Scout's Security-as-a-Service platform to Australia.

The Company has also recently signed a Memorandum of Understanding (MoU) with a major North American provider of WiFi motion sensing technology.

This party, and others like it, partner with ISPs and hardware and software providers to enable WiFi-connected devices to see and interpret motion, bringing contextual awareness and user behaviour insights to the smart home.

The Company will provide further details on this opportunity via a joint press release with its partner. This is one of several such partnerships in the WiFi motion sensing space that Scout is intending to sign.

The Board does not consider the MoU financially material to the Company nor quantifiable in the short term, however it is viewed as strategically significant due to its enhancement of the utility of, and addressable market for, the Scout security platform.

Strategy and Outlook

Scout continues to gain scale and remains poised for significant growth in 2023. The Company has ambitious goals for the year ahead, expecting further growth in sales through Scout's US telecommunications partner and progress on its pipeline of potential white label partners.

It is a goal of the Company for MRR alone to balance monthly cash burn and, based on the current rate of monthly telco adds, the Company is well on its way to achieving that goal. The Company currently has enough orders for cameras and kits from its white label partners, that if all those units were sold into the market, the resulting boost to recurring revenue would allow Scout to achieve cash flow breakeven on an MRR-only basis.

The Company has identified additional growth opportunities made possible through WiFi sensing - a new capability deployable through WiFi6 devices that can be used by Scout to detect motion in homes. Using WiFi sensing, users could purchase a "light" home security system that can be built up over time - a reframe of the home security industry and its value proposition. Over 3,000 ISPs, representing millions of households in the U.S. alone, have been identified that could leverage Scout's emerging capabilities relating to WiFi sensing.

Scout expects this development to revolutionise home security, advancing the Company and industry towards its hardware-free future - and Scout is uniquely positioned as the only white label DIY security offering available to enterprises with WiFi Motion Sense ready to launch.

The market for app-based security systems remains robust, with greater than 50% of all home security systems being self-installed, supporting the growth outlook for Scout. The Company continues to see industry validation that smart security is one of the most compelling extensions of the telco core, and based on the successes Scout is seeing with its first US partners, the Company has good reasons to hold a positive outlook for growth in the year ahead.

The Company held cash at bank of \$648,119 as at 31 December 2022, with cash on hand increasing by approximately \$164k over the prior quarter.

2.2. Financial Review

a. Operating results

For the half-year ended 31 December 2022 the Group delivered a loss before tax of \$1,923,552 (31 December 2021: \$1,918,397 loss), representing a slight increase 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 11.

2.3. Events Subsequent to Reporting Date

There are no 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.

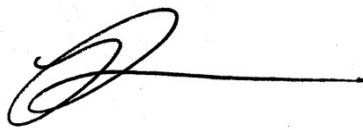
2.4 Future Developments, Prospects and Business Strategies

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 2022 has been received and can be found on page 6 of the interim financial report.

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



Ryan M. McCall

Executive Director

Dated this Tuesday, 28 February 2023

To the Board of Directors

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

As lead audit director for the review of the financial statements of Scout Security Limited for the half-year ended 31 December 2022, 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,


HALL CHADWICK WA AUDIT PTY LTD


MARK DELAURENTIS CA
Director

Dated this 28th day of February 2023
Perth, Western Australia

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2022

	Note	6 months to 31 Dec 2022 \$	6 months to 31 Dec 2021 \$
<i>Continuing operations</i>			
Revenue	3.1	860,072	2,416,947
Cost of sales		(373,435)	(1,559,103)
Gross profit		486,637	857,844
Other income	4.1	17,284	2,028
Consulting and professional fees		(162,412)	(709,767)
Employee expenses	4.3	(1,425,577)	(971,055)
Fair value movement in embedded derivative		-	(63,526)
Rental costs		(72,327)	(62,287)
Share-based payments	18	48,285	(3,688)
Information technology costs		(53,877)	(150,157)
Finance costs	4.2	(364,749)	(529,694)
Sales and marketing		(49,668)	(57,134)
Shipping and postage		(98,648)	(42,587)
Travel and entertainment		(46,375)	(36,256)
Other expenses		(202,125)	(267,170)
Loss before tax		(1,923,552)	(1,918,397)
Income tax expense		-	-
Net loss for the half-year		(1,923,552)	(1,918,397)
<i>Other comprehensive income, net of income tax</i>			
✓ Items that may be reclassified subsequently to profit or loss		(21,940)	(41,930)
□ Foreign currency movement			
Other comprehensive income for the half-year, net of tax		(21,940)	(41,930)
Total comprehensive income attributable to members of the parent entity		(1,945,492)	(1,960,327)
<i>Earnings per share:</i>			
Basic and diluted loss per share (cents per share)	5	(1.04)	(1.27)

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 2022

	Note	31 Dec 2022 \$	30 June 2022 \$
<i>Current assets</i>			
Cash and cash equivalents	6	648,119	236,863
Trade and other receivables	7	348,639	505,504
Inventories	8	711,548	475,378
Other current assets	9	71,863	45,607
Financial Assets	10.1	434,402	-
Total current assets		2,214,571	1,263,352
<i>Non-current assets</i>			
Financial assets	10.2	-	694,046
Total non-current assets		-	694,046
Total assets		2,214,571	1,957,398
<i>Current liabilities</i>			
Trade and other payables	11.1	1,349,177	1,556,721
Borrowings	11.2	1,841,375	422,812
Unearned revenues	12	215,261	148,132
Total current liabilities		3,405,813	2,127,665
<i>Non-current liabilities</i>			
Borrowings	13	666,569	1,883,167
Financial liabilities	14	384,375	384,375
Total non-current liabilities		1,050,944	2,267,542
Total liabilities		4,456,757	4,395,207
Net assets/(liabilities)		(2,242,186)	(2,437,809)
<i>Equity</i>			
Issued capital	15.1	18,215,774	16,065,022
Reserves		5,587,018	5,618,595
Accumulated losses		(26,044,978)	(24,121,426)
Total equity		(2,242,186)	(2,437,809)

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2022

	Note	Contributed equity	Foreign Currency Translation Reserve	Share-based Payments Reserve	Accumulated Losses	Total equity
		\$	\$	\$	\$	\$
<i>Balance at 1 July 2021</i>		15,413,387	150,096	5,209,020	(20,832,502)	(59,999)
Loss for the half-year attributable owners of the parent		-	-	-	(1,918,397)	(1,918,397)
Other comprehensive income for the half-year attributable owners of the parent		-	(41,930)	-	-	(41,930)
Total comprehensive income for the half-year attributable owners of the parent		-	(41,930)	-	(1,918,397)	(1,960,327)
<i>Transaction with owners, directly inequity</i>						
Shares issued during the half-year (net of costs)	15.1	101,224	-	-	-	101,224
Options granted during the half-year	15.2	-	-	262,821	-	262,821
Employee Performance shares	15.3	-	-	3,688	-	3,688
Conversion of performance rights	15.1	340,730	-	(340,730)	-	-
<i>Balance at 31 December 2021</i>		15,855,341	108,166	5,134,799	(22,750,899)	(1,652,593)
<i>Balance at 1 July 2022</i>		16,065,022	304,312	5,314,283	(24,121,426)	(2,437,809)
Loss for the half-year attributable owners of the parent		-	-	-	(1,923,552)	(1,923,552)
Other comprehensive income for the half-year attributable owners of the parent		-	(21,940)	-	-	(21,940)
Total comprehensive income for the half-year attributable owners of the parent		-	(21,940)	-	(1,923,552)	(1,945,492)
<i>Transaction with owners, directly inequity</i>						
Shares issued during the half-year (net of costs)	15.1	2,150,752	-	-	-	2,150,752
Options granted during the half-year	15.2	-	-	131,192	-	131,192
Employees Performance rights	15.3	-	-	(140,829)	-	(140,829)
Conversion of performance rights	15.1	-	-	-	-	-
<i>Balance at 31 December 2022</i>		18,215,774	282,372	5,304,646	(26,044,978)	(2,242,186)

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

SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

APPENDIX 4D

Interim Financial Report

31 December 2022

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2022

	Note	6 months to 31 Dec 2022 \$	6 months to 31 Dec 2021 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		678,676	1,364,442
Interest received		-	2,028
Interest paid		(37,686)	(2,680)
Payments to suppliers and employees		(3,026,901)	(3,590,930)
Other Receipts-Government employee retention credit		392,652	-
Net cash used in operating activities		(1,993,259)	(2,227,140)
<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		2,309,999	-
Payments for capital raising costs		(120,600)	-
Proceeds from convertible debt securities		-	425,000
Repayment of convertible debt securities		(62,500)	-
Proceed from borrowings		274,313	-
Net cash provided by financing activities		2,401,212	425,000
Net increase/(decrease) in cash held		407,951	(1,802,140)
Cash and cash equivalents at the beginning of the half-year		236,863	1,902,575
Change in foreign currency held		3,303	29,015
Cash and cash equivalents at the end of the half-year	6	648,119	129,450

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 2022

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 28 February 2023 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 2022 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 \$1,923,552 (31 December 2021: \$1,918,397 loss) and a net operating cash out-flow of \$1,993,259 (31 December 2021: \$2,227,140 out-flow). As at 31 December 2022 the Group had a working capital deficiency of \$1,191,243 (30 June 2022: \$864,313 deficiency) which includes \$215,261 (30 June 2022: \$148,132) 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:

- ✓ In September 2022, The successfully completed a \$0.93 million placement and launched a partially underwritten \$1.38 million rights issue. The Company received commitments for \$1.278 million under the Rights Issue via entitlements acceptances from existing investors and successfully placed the shortfall in December 2022 to raise the maximum of \$1.38 million before costs.
- ✓ The continued growth in sales of new products and customers within the year that should provide additional hardware and recurring revenue streams.
- ✓ High-margin recurring revenue is expected to dramatically increase with new partner onboarding and scaling of current customers.
- ✓ Company is currently in discussions with financiers regarding new funding and has a history of successful capital raising.
- ✓ Company will continue to exercise cost discipline and tight management of working capital.

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

Should the Group be unable to successfully execute one or more of the aforementioned matters, there exists a material uncertainty that may cause significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern and meet its debts as and when they become due and payable.

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

Note 1. Statement of significant accounting policies (continued)

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 2022.

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. Any new or amended Accounting Standards and Interpretations did not have a significant impact on the Group.

The adoption of these Accounting Standards and Interpretation did not have a significant impact on the Group.

Note 2. Company details

The registered office of the Company is:

Registered Office – United States

Street: Level 8
210 George St.
Sydney, NSW 2000
Australia

Postal: 210 North Racine Avenue
Unit 2M, Chicago, IL 60607
United States of America

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

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 2022 \$	6 months to 31 Dec 2021 \$
76,493	2,001,259
429,533	250,463
265,411	119,014
88,635	46,211
860,072	2,416,947

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

✓ Other

6 months to 31 Dec 2022 \$	6 months to 31 Dec 2021 \$
-	25
17,284	2,003
17,284	2,028

4.2. Finance costs:

✓ Bank interest

✓ Interest – Convertible note

✓ Interest – Unwinding of transaction costs

70,546	2,680
36,905	7,262
257,298	529,752
364,749	539,694

4.3. Employment costs:

✓ Directors fees

✓ Wages and salaries

75,294	60,321
1,350,283	910,734
1,425,577	971,055

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 2022 \$	6 months to 31 Dec 2021 \$
(1,923,552)	(1,918,397)
(1,923,552)	(1,918,397)

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

Note 5 Earnings per share (EPS) (continued)

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

6 months to 31 Dec 2022 No.	6 months to 31 Dec 2021 No.
185,831,402	150,542,716

5.3. Earnings per share

Note	6 months to 31 Dec 2022 ¢	6 months to 31 Dec 2021 ¢
5.4	(1.04)	(1.27)

Basic EPS (cents per share)

5.4. As at 31 December 2022 the Group has 84,791,045 unissued shares under options (31 December 2021: 26,619,185). The Group does not report diluted earnings per share on losses generated by the Group.

Note 6. Cash and cash equivalents

6.1. Current

Cash at bank

31 Dec 2022 \$	30 June 2022 \$
648,119	236,863
648,119	236,863

Note 7. Trade and other receivables

7.1. Current

Trade receivables

31 Dec 2022 \$	30 June 2022 \$
348,639	505,504
348,639	505,504

Note 8. Inventories

8.1. Current

Finished goods

31 Dec 2022 \$	30 June 2022 \$
711,548	475,378-
711,548	475,378

Note 9. Other assets

9.1. Current

Other current assets

31 Dec 2022 \$	30 June 2022 \$
71,863	45,607
71,863	45,607

Note 10. Financial assets

10.1. Current

Convertible notes – transaction costs

Facilities, broker, and investors Options

Fees

Convertible Note – Embedded Derivative at initial recognition

Unwound transaction costs

31 Dec 2022 \$	30 June 2022 \$
1,523,334	-
70,000	-
793,190	-
(1,952,122)	-
434,402	-

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

Note 10. Financial assets (continued)

Note	31 Dec 2022 \$	30 June 2022 \$
10.2. Non-current		
Convertible notes – transaction costs		
Facilities, broker, and investors Options	-	1,523,334
Fees	-	70,000
Convertible Note – Embedded Derivative at initial recognition	-	793,190
Unwound transaction costs	-	(1,692,478)
	-	694,046

10.3. The transaction costs were incurred in relation to the raising of funds under the convertible note facility (note 13.1). 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

Accruals and other payables

	31 Dec 2022 \$	30 June 2022 \$
Trade payables	432,983	930,755
Accruals and other payables	916,194	625,966
	1,349,177	1,556,721

11.2. Current

Unsecured

Borrowings

Convertible notes – face value

	31 Dec 2022 \$	30 June 2022 \$
Borrowings	366,375	422,812
Convertible notes – face value	1,475,000	-
	1,841,375	422,812

Note 12. Unearned revenues12.1. Current *Unsecured*

Unearned revenues

	31 Dec 2022 \$	30 June 2022 \$
Unearned revenues	215,261	148,132
	215,261	148,132

Note 13. Borrowings

a. Non-Current

Convertible notes – face value

Secured Debt

	31 Dec 2022 \$	30 June 2022 \$
Convertible notes – face value	-	1,475,000
Secured Debt	666,569	408,167
	666,569	1,883,167

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

- 13.1. On 13 April 2022, the Company entered into a secured debt deed of loan ("Deed") with Adaptive Income Fund, LP to raise US\$400,000. The key features of the Deed are summarized below:
- **Term:** The term of the deed is 2 years with a minimum of 90 days, after which the facility can be repaid in whole or part, on 30 days' notice, without penalty.
 - **Interest:** The interest rate will be fixed at 7.0% per annum, calculated and payable quarterly. In the event of default by the Company, a default margin of 8.0% will be added.
 - **Deed Options:** In consideration for participation in the Deed, investors will be granted 5,400,000 options to acquire shares in the company at strike price of \$0.10 and an expiration date 3 years from issuance.
- 13.2. On 17 July 2022, the Company entered into a secured debt deed of loan ("Deed") with Directors Martin Pretty, Daniel Roberts and Ryan McCall to raise AUD\$258,000. The key features of the Deed are summarized below:
- **Term:** The term of the deed is 2 years with a minimum of 90 days, after which the facility can be repaid in whole or part, on 30 days' notice, without penalty.
 - **Interest:** The interest rate will be fixed at 10.0% per annum, calculated and payable quarterly. In the event of default by the Company, a default margin of 8.0% will be added.

Note 14. Financial liabilities**14.1. Non-current**

Convertible note – Embedded Derivative liability

Note	31 Dec 2022	30 June 2022
		\$
14.2	384,375	384,375
	384,375	384,375

- 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.

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

Note 15. Equity

15.1. Issued capital	Note	6 months to 31 Dec 2022 No.	12 months to 30 June 2022 No.	6 months to 31 Dec 2022 \$	12 months to 30 June 2022 \$
Fully paid ordinary shares at no par value		230,394,648	153,394,650	18,215,774	16,065,022
15.1.1. Ordinary shares					
At the beginning of the period		153,394,650	145,672,677	16,065,022	15,413,387
<i>Shares issued during the half-year</i>				-	
✓ Conversion of employee performance rights		-	2,610,066	-	201,830
✓ Conversion of performance shares		-	1,500,000	-	138,900
✓ Conversion of convertible debt securities @ \$0.07 per share		-	1,071,429	-	75,000
✓ Directors Placement @ \$0.088		-	2,285,716	-	200,000
✓ Embedded derivative component on conversion of		-	-	-	26,224
✓ Conversion of employee performance shares		-	254,762	-	9,681
✓ Placement @ \$0.03 per share		32,666,664	-	980,000	-
✓ Rights Issue @ \$0.03 per share		44,333,334	-	1,330,000	-
<i>Transaction costs relating to share issues</i>					
✓ Cash		-	-	(120,600)	-
✓ Equity based	18	-	-	(38,648)	-
At reporting date		230,394,648	153,394,650	18,215,774	16,065,022

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

Note 15 Equity (continued)

	Note	6 months to 31 Dec 2022 No.	12 months to 30 June 2022 No.	6 months to 31 Dec 2022 \$	12 months to 30 June 2022 \$
15.2. Options		84,791,045	33,990,614	5,159,648	5,028,456
Options		33,990,614	14,833,468	5,028,456	4,588,840
At the beginning of the period		-	-	-	-
✓ Options(lapsed)		-	-	-	262,821
✓ Issue of facility options	18	-	11,785,717	-	21,000
✓ Issue of facility options	18	-	1,074,429	-	19,440
✓ Issue of investor options	18	-	900,000	-	136,355
✓ Issue of options	18	-	5,400,000	-	-
✓ Issue of options	18	38,499,971 ¹	-	-	-
✓ Issue of brokers options	18.3	2,300,460	-	38,648	-
✓ Issue of director options	18.3	10,000,000	-	92,544	-
At reporting date ¹		84,791,045	33,990,614	5,159,648	5,028,456

¹ These are issued as free attaching options**15.3. Performance shares**

	Note	6 months to 31 Dec 2022 No.	12 months to 30 June 2022 No.	6 months to 31 Dec 2022 \$	12 months to 30 June 2022 \$
Performance shares		10,826,192	5,514,660	144,998	285,827
At the beginning of the period		5,514,660	44,808,751	285,827	620,180
Performance shares movement during the half-year:					
✓ Issued	18.2	5,311,532	1,070,737	14,271	16,058
✓ Previous year Vesting		-	-	6,900	-
✓ Lapsed		-	(36,000,000)	-	-
✓ Fair Value Adjustment		-	-	(162,000)	-
✓ Converted to ordinary shares		-	(4,364,828)	-	(350,411)
At reporting date		10,826,192	5,514,660	144,998	285,827

Note 16. Events subsequent to reporting date

There are no significant after balance date events.

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 2022

Note	18. Share-based payments	Note	6 months to	6 months to
			31 Dec 2022	31 Dec 2021
			\$	\$
18.1.	Share-based payments:			
	✦ Recognised in profit and loss (expenses)	18.2.1	(48,285)	3,688
	✦ Recognised in equity (transaction costs)	18.2.2	38,648	-
	✦ Recognised in financial assets	18.2.3	-	262,821
	Gross share-based payments		(9,637)	266,509

18.2.1 Share-based payments recognized in profit and loss during the half-year*18.2.1.1. Performance Shares - Mr Ryan McCall*

4,601,532 Performance Shares were approved at the Annual General Meeting held on 16 November 2022 to Mr Ryan McCall 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.

Additionally, 710,000 Performance shares were approved for Mr. Ryan McCall subject to the company's vesting schedule for tenure with no additional performance milestone.

Class of Performance Right	Performance Condition	Performance rights No.	Vesting condition	Expiry Date	Performance Condition Satisfied	Fair Value
A	Upon achievement of a 90 day VWAP of cents based upon shares traded on ASX over any period between allotment of the rights and 16 July 2024	1,150,383	Market	16 July 2024	No	822
B	Upon achievement of a 90 day VWAP of 12 cents based upon shares traded on ASX over any period between allotment of the rights and 30 June 2025	1,150,383	Market	30 June 2025	No	387
C	Upon the releasing of Audited Financial Statements by the Company evidencing NPAT of at least A\$2,000,000 in any one of the FY23, FY24 and FY25	1,150,383	Non-Market Vesting	30 June 2025	No	933
D	Upon the Company reporting recurring monthly revenue (excluding hardware sales or other one-off that exceeds expenses for any 3 month period prior to 30 June 2024	1,150,383	Non-Market Vesting	30 June 2023	No	1,479
Service	Upon tenure milestones	710,000	Non-Market Vesting	1 January 2025	No	10,650

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

18.2.1.2. Performance Shares - Mr Daniel Roberts

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	Fair Value
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	Yes ¹	-
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	117,450

1. On 12 July 2021, 1,500,000 Class C Performance Shares converted into 1,500,000 Ordinary Fully Paid Shares upon satisfaction and achievement of the Class C milestone

18.2.1.3. Employee Performance Rights

Grant date	Performance Condition	Performance rights No.	Performance rights No. Vested @ 30 June 2022	Share price @ grant date \$	Performance rights No. Vested @ 31 Dec 2022	Amount \$
9 March 2021	Based on past vesting over 3-month period for prior and continued service.	364,182	364,182	0.110	-	-
12 April 2021	25% vest after 12 months of continuous service with balance vesting in equal instalments over next 36 months subject to continued service.	298,028	106,073	0.099	28,172	2,789
28 April 2021	1 Year Vesting period based on continued service from Feb 2020.	826,528	826,528	0.088	-	-
30 June 2021	1 Year Vesting period based on continued service from Feb 2020.	1,320,013	1,320,013	0.060	-	-
25 March 2022	198,882 immediate vest with balance vesting Equally over next 24 months	310,000	206,265	0.03	16,500	495
29 June 2022	25% vest after 12 months of continuous service With balance vesting in equal instalments over next 36 months subject to continued service	760,737	25,536	0.03	120,533	3,616
		3,879,488	2,848,597		165,205	6,900

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2022

18.2.2. Recognised in equity

18.2.2.1. Broker Options

On 16 November 2022, 2,300,460 Broker Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below detailed below.

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
2,300,460	31 July 2026	\$0.070	Immediately upon issue

18.2.3. Recognised in P&L

18.2.3.1. Director Options

On 16 November 2022, 10,000,000 Director Options were issued. Details of the assumptions used in the valuation of the options of these options are summarised below detailed below.

Number under Option	Date of Expiry	Exercise Price	Vesting Terms
10,000,000	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 \$0.0168 and \$0.0093 (31 December 2021: \$0.060). These values were calculated using the Black-Scholes option pricing model, applying the following inputs to options:

Note Reference	18.2.2.9	18.2.2.10
Grant date:	16.11.2022	16.11.2022
Grant date share price:	\$0.03	\$0.03
Option exercise price:	\$0.07	\$0.070
Number of options issued:	2,300,460	10,000,000
Remaining life (years):	3.7	1.7
Expected share price volatility:	104%	104%
Risk-free interest rate:	3.36%	3.12%
Value per option	\$0.0168	\$0.0093

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.

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.

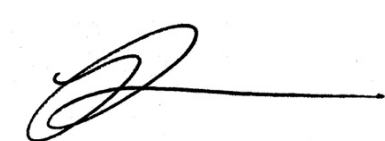
Unless stated otherwise, all amounts reported to the Board of directors as the chief operating decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group. During the current period, the Group is considered to operate in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

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 2022 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:



Ryan M. McCall

Executive Director

Dated this Tuesday, 28 February 2023

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 its subsidiaries ("the Controlled Entities") which comprises the condensed consolidated statement of financial position as at 31 December 2022, 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 Scout Security Limited financial position as at 31 December 2022 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.1.2 in the financial report, which indicates that the Consolidated Entity incurred a net loss of \$1,923,552 during the half year ended 31 December 2022. As stated in Note 1.1.2, these events or conditions, along with other matters as set forth in Note 1.1.2, indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Responsibility of the Directors for the Financial Report

The directors of 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 Consolidated Entity's financial position as at 31 December 2022 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.

Hall Chadwick
HALL CHADWICK WA AUDIT PTY LTD

Mark Delaurentis
MARK DELAURENTIS CA
Director

Dated this 28th day of February 2023
Perth, Western Australia