



Scout Security Limited

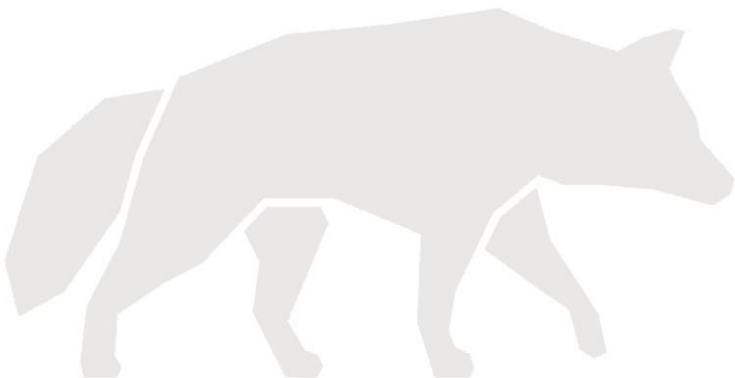
ABN 13 615 321 189

and its controlled entities

APPENDIX 4D

Interim Financial Report

31 December 2023



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 2023

Company Secretary

Ms. Kim Clark
(Ms. Kim Larkin post January
16, 2024)

Effective July 4, 2022

Registered Office - Australia

Street + Postal: Level 8
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 2N, 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
NEDLANDS WA 6009

Telephone: 1300 113 258 (within Australia)
+61 (0)8 9389 8033 (International)

Facsimile: +61 (0)8 6370 4203

Email: admin@advancedshare.com.au

Website: www.advancedshare.com.au

Securities Exchange

Level 40, Central Park, 152-158 St Georges Terrace
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

ASX Code SCT

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 2023

1 REPORTING PERIOD (item 1)			
■ Report for the period ended:	31 December 2023		
■ Previous corresponding period is half-year ended:	31 December 2022		
2 RESULTS FOR ANNOUNCEMENT TO THE MARKET		Movement	Percentage %
■ Revenues from ordinary activities (item 2.1)	Increase	29.62	to 1,114,851
■ Loss from ordinary activities after tax attributable to members (item 2.2)	Increase in Losses	7.00	to (2,058,176)
■ Loss from after tax attributable to members (item 2.3)	Increase in Losses	7.00	to (2,058,176)
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	(2,058,176)	(1,923,552)	
Net assets/(liabilities)	(6,397,974)	(2,242,186)	
Less: Intangible assets	-		
Net tangible assets/(liabilities)	(6,397,974)	(2,242,186)	
	No.	No.	
Fully paid ordinary shares	232,427,382	230,394,648	
b. Net tangible assets/ (liability) backing per share (cents) (item 3):		(2.75)	(0.973)

Results for Announcement to the Market

for the half-year ended 31 December 2023

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 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 2023.

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
□ Mr Daniel Roberts	Executive Director
□ Mr David Shapiro	Non-executive Director
□ Mr Anthony Brown	Non-executive Director
□ Mr Ryan McCall	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 H1 FY24, Scout:

- Earned subscription revenue of \$554k (29% increase from H1 FY23)
- Earned revenue of \$1.11M (+30% from H1 FY23)
- Earned gross profit of \$639k (+31% from H1 FY23)
- Recorded a net loss of \$2.06M (-7% from H1 FY23)

Financial Performance

During the period, Scout's recurring monthly revenue streams provided the Company with \$1.1m in annualised recurring revenue (ARR). The Company's other key source of revenue were product sales (+209% YoY to \$235k) and white label development fees (+23% YoY to \$325k).

Administration and corporate costs, staff costs and product manufacturing and operating costs all trended lower over the course of H1 FY24, reflecting operational improvements across the business. The main driver of the year-on-year increase in the Company's net loss after tax was an increase in finance costs. Subsequent to the half year, the Company enacted a restructuring plan that resulted in a greater than A\$900k annualized reduction in employee costs.

In December, Scout agreed with investors holding AU\$1.475m of the Convertible Notes due on 31 December 2023 that, subject to shareholder approval, the maturity date of the Notes would be extended to 31 December 2024 on terms detailed in the ASX announcement dated 29 December 2023. The Company continues to progress opportunities with current partners and its sales pipeline to deliver meaningful revenue growth that will support the potential conversion, redemption or refinancing of the New Convertible Notes before or at the end of the extended term.

The Company held cash at bank of AU\$58k as at 31 December 2023 and, having subsequently raised AU\$306k via its existing debt facility, the Company is currently engaged in discussions with multiple parties in relation to additional debt funding and strategic investment. Scout has appointed middle market corporate advisor Westlake Securities to explore strategic opportunities.

Operational Highlights and Strategy Delivery

The Company remains focused on growing subscriptions through its white label program, which continues to yield net new customer adds each month. Growth in Scout's monthly recurring revenue (MRR) through its white label program reflects sell-through and activation of Scout-powered security systems, and over time, growth in MRR also decreases the significance of hardware purchase orders to the Company's cash flows. Reflecting the Company's progress in executing this growth strategy, Scout was proud to be named the market's best contract-free home security provider of 2024 by CBS Essentials, the online shopping guide of major US broadcaster CBS.

During the period, US sales of the Scout-powered white labelled telco home security solution continued to develop. Sales through the Company's first US ISP white label partner, Windstream, increased through the period as Windstream actively marketed the Scout-powered DIY home security solution via e-commerce to its existing customer base. This followed the launch in the June 2023 quarter of e-commerce sales to existing Windstream customers. Prior to this point, Windstream had only targeted new customers via phone sales with the Scout-powered Kinetic Secure Home offer. A marketing push in January 2024 has hope to drive stronger growth in sales which will accrue to RMR in the March quarter.

Windstream e-commerce is proving to be a successful channel, with the rate of sales prompting Windstream to order an additional 5,000 cameras from Scout during the September quarter, and subsequent to the half year, an additional 4,000 cameras. With the value of this channel now proven, Scout and Windstream are in discussions regarding offering more Scout products on the Windstream platform, and potentially transitioning Windstream to Wi-Fi Motion Sense and moving beyond the hub model.

The partnership between Scout and Lumen Technologies, Inc ((NYSE: LUMN), "Lumen") continued productively during the quarter as the parties work towards agreeing a Statement of Work (SoW) as a next step following the Master Services Agreement signed in September 2023. Lumen is a full-service US telco with 5 million broadband subscribers, adding 20,000 new broadband subscribers monthly, and US\$20bn in annual revenue.

Scout and Lumen management met in mid-January at the Consumer Electronics Show in Las Vegas and reconfirmed the parties' shared commitment to rolling out the Scout-powered smart security and control platform under Lumen's brand in the months ahead, with recurring revenues to follow. Commercial launch of Scout's motion sense home security product will open a new addressable market for Scout of users who could purchase a "light" home security system as a stepping stone that can be built up over time.

A SoW and wider rollout with Lumen following the recent successful pilot program would represent the largest expansion in Scout's white label partner group to date. In collaboration with Origin, the pilot program tested the Scout-powered motion sense home security app with Lumen customers, bringing cutting-edge Wi-Fi sensing capability to detect motion in homes through the disruption of Wi-Fi waves. Scout received strong positive user feedback through the pilot program, with as many as 65% of responders indicating that they would be willing to pay for the Scout-powered home security service after experiencing a free trial.

In November, Scout secured a new white label partnership deal with Origin Wireless AI ("Origin"). Canadian-based Origin is the pioneer in transforming WiFi signals into innovative WiFi Sensing technology and the category leader in providing precise presence sensing solutions for Fortune 500 business service providers, security, and Internet-of-Things (IoT) companies, leveraging its patented and award-winning AI to detect and verify human presence for eldercare, smart automations and security.

Scout's sales and business development activities in Australia increased during the first few months of the period. The Company remains in discussions with Australian internet service providers (ISPs) and value-added resellers (VARs) to bring Scout's Security-as-a-Service platform to Australia, leveraging the beachhead established through the achievement of first sales of Scout products on Amazon.com.au.

Scout continues to evaluate opportunities to inorganically accelerate the growth of the Company through strategic potential acquisitions. Even as the market for DIY security has consolidated over the past 10 years, there remain a number of independent companies similar in scale to Scout. That along with those in the ageing in place, wellness, and general IoT industries could provide attractive opportunities for the Company to grow via acquisition and accelerate the path to profitability.

Outlook

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

Scout has hit the ground running with its latest partner, Origin Wireless AI, whose commitment underlines the strategic value of Scout's technology platform for DiY home security and the Company's white-label proposition within the realm of Wi-Fi motion sensing.

The progress of Scout's partnership with Lumen is providing encouraging signs that there is a very real opportunity not only to take what Scout is delivering with Windstream to a much larger market, but also to commercialise the Company's leadership position in applying Wi-Fi motion sensing technology. Scout enters CY24 focused on maintaining and expanding this leadership position to multiple multi-billion-dollar global markets: home awareness, security, health and aging in place. It is Scout's goal to launch its white label DiY solution in Australia during CY24.

Scout continues to work multiple exciting opportunities through its sales pipeline, which remains the most robust it has been in the history of the Company.

2.2. Financial Review

a. Operating results

For the half-year ended 31 December 2023, the Group delivered a loss before tax of \$2,058,176 (31 December 2022: \$1,923,552 loss), representing a 7% 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.

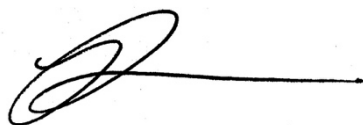
2.4 Future Developments, Prospects and Business Strategies

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 2023 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 Thursday, 29 February 2024

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 2023, 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
HALL CHADWICK WA AUDIT PTY LTD

Mark Delaurentis
MARK DELAURENTIS CA
Director

Dated this 29th day of February 2024
Perth, Western Australia

Condensed consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2023

	Note	6 months to 31 Dec 2023 \$	6 months to 31 Dec 2022 \$
<i>Continuing operations</i>			
Revenue	3.1	1,114,851	860,072
Cost of sales		(475,605)	(373,435)
Gross profit		639,246	486,637
Other income	4.1	24,047	17,284
Consulting and professional fees		(169,780)	(162,412)
Employee expenses	4.3	(1,444,316)	(1,425,577)
Fair value movement in embedded derivative		-	-
Rental Costs		(80,297)	(72,327)
Share-based payments	18	(30,100)	48,285
Information technology costs		(50,632)	(53,877)
Finance costs	4.2	(555,843)	(364,749)
Sales and marketing		(10,821)	(49,668)
Shipping and postage		(101,995)	(98,648)
Travel and entertainment		(7,342)	(46,375)
Other expenses		(270,343)	(202,125)
Loss before tax		(2,058,176)	(1,923,552)
Income tax expense		-	-
Net loss for the half-year		(2,058,176)	(1,923,552)
<i>Other comprehensive income, net of income tax</i>			
■ Items that may be reclassified subsequently to profit or loss			
Foreign currency movement		58,995	(21,940)
Other comprehensive income for the half-year, net of tax		58,995	(21,940)
Total comprehensive income attributable to members of the parent entity		(1,999,181)	(1,945,492)
<i>Earnings per share:</i>			
Basic and diluted loss per share (cents per share)	5	(0.891)	(1.04)

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 2023

	Note	31 Dec 2023 \$	30 June 2023 \$
<i>Current assets</i>			
Cash and cash equivalents	6	57,637	1,052,421
Trade and other receivables	7	125,353	37,869
Inventories	8	219,627	399,300
Other current assets	9	56,001	45,327
Total current assets		458,618	1,534,917
<i>Non-current assets</i>			
Financial assets	10	-	220,079
Total non-current assets		-	220,079
Total assets		458,618	1,754,996
<i>Current liabilities</i>			
Trade and other payables	11.1	1,938,670	1,530,970
Borrowings	11.2	1,489,860	1,838,885
Unearned revenues	12	118,490	137,647
Financial liabilities	14	384,375	384,375
Total current liabilities		3,931,395	3,891,877
<i>Non-current liabilities</i>			
Borrowings	13	2,925,197	2,355,237
Total non-current liabilities		2,925,197	2,355,237
Total liabilities		6,856,592	6,247,114
Net assets/(liabilities)		(6,397,974)	(4,492,118)
<i>Equity</i>			
Issued capital	15.1	18,254,257	18,223,976
Reserves		6,069,733	5,947,694
Accumulated losses		(30,721,964)	(28,663,788)
Total equity		(6,397,974)	(4,492,118)

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 2023

	Note	Contributed equity	Foreign Currency Translation Reserve	Share-based Payments Reserve	Accumulated Losses	Total equity
		\$	\$	\$	\$	\$
<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 in equity</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
Employee Performance shares	15.3	-	-	(140,829)	-	(140,829)
Warrants Issued	15.4	-	-	-	-	-
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)
<i>Balance at 1 July 2023</i>		18,223,976	243,772	5,703,922	(28,663,788)	(4,492,118)
Loss for the half-year attributable owners of the parent		-	-	-	(2,058,176)	(2,058,176)
Other comprehensive income for the half-year attributable owners of the parent		-	58,995	-	-	58,995
Total comprehensive income for the half-year attributable owners of the parent		-	58,995	-	(2,058,176)	(1,999,181)
<i>Transaction with owners, directly in equity</i>						
Shares issued during the half-year (net of costs)	15.1	22,500	-	-	-	22,500
Employees Performance rights	15.3	-	-	30,100	-	30,100
Warrants issued	15.4	-	-	40,725	-	40,725
Conversion of performance rights	15.1	7,781	-	(7,781)	-	-
<i>Balance at 31 December 2023</i>		18,254,257	302,767	5,766,966	(30,721,964)	(6,397,974)

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 2023

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2023

	Note	6 months to 31 Dec 2023 \$	6 months to 31 Dec 2022 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		1,013,004	678,676
Interest received		-	-
Interest paid		(195,900)	(37,686)
Payments to suppliers and employees		(1,992,106)	(3,026,901)
Other Receipts-Government employee retention credit		-	392,652
Net cash used in operating activities		(1,175,002)	(1,993,259)
<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 borrowings		517,871	274,313
Repayment of convertible debt securities		-	(62,500)
Repayment of borrowings		(327,112)	-
Net cash provided by financing activities		190,759	2,401,212
Net increase/(decrease) in cash held		(984,243)	407,951
Cash and cash equivalents at the beginning of the half-year		1,052,421	236,863
Change in foreign currency held		(10,541)	3,303
Cash and cash equivalents at the end of the half-year	6	57,637	648,119

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 2023

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 29 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 2023 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 \$2,058,176 (31 December 2022: \$1,923,552 loss) and a net operating cash outflow of \$1,175,002 (31 December 2022: \$1,993,259 out-flow). As at 31 December 2023 the Group had a working capital deficiency of \$3,472,777 (30 June 2023: \$2,356,960 deficiency) which includes \$118,490 (30 June 2023: \$137,647) 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:

- During the 1H of the 2024 fiscal year, the Company completed raising its secured debt facility, bringing in AUD \$3.48m in working capital prior to costs.
- The launch of new customers within the year that should provide additional hardware, engineering, and 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 has enacted significant cost cutting measures after the conclusion of the half year, resulting in an annualized savings of over AU\$900k, and will continue to exercise cost discipline and tight management of working capital.
- Managing cash flows in line with available funds and obtaining the on going support of creditors.
- Subsequent to year end the Company has extended the maturity of the outstanding Convertible notes until at least 31 December 2024 and will continue to negotiate with Convertible note holders to ensure the successful extinguishment of these notes.

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

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

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

Note 1. Statement of significant accounting policies (continued)

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

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 2023.

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 2N, Chicago, IL 60607
United States of America

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

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 2023	6 months to 31 Dec 2022
\$	\$
235,393	76,493
553,813	429,533
325,645	265,411
-	88,635
1,114,851	860,072

Note 4. Loss before income tax

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

4.1. Other Income

■ Other

6 months to 31 Dec 2023	6 months to 31 Dec 2022
\$	\$
24,047	17,284
24,047	17,284

4.2. Finance costs:

■ Interest – Borrowings

■ Interest – Convertible note

■ Interest – Unwinding of transaction costs

222,411	70,546
36,777	36,905
296,655	257,298
555,843	364,749

4.3. Employment costs:

■ Directors fees

■ Wages and salaries

63,830	75,294
1,380,486	1,350,283
1,444,316	1,425,577

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 2023	6 months to 31 Dec 2022
\$	\$
(2,058,176)	(1,923,552)
(2,058,176)	(1,923,552)

SCOUT SECURITY LIMITED

AND CONTROLLED ENTITIES

ABN 13 615 321 189

APPENDIX 4D

Interim Financial Report

31 December 2023

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

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 2023 No.	6 months to 31 Dec 2022 No.
231,079,202	185,831,402

5.3. Earnings per share

Note	6 months to 31 Dec 2023 ¢	6 months to 31 Dec 2022 ¢
5.4	(0.891)	(1.04)

Basic EPS (cents per share)

5.4. As at 31 December 2023 the Group has 84,791,045 unissued shares under options (31 December 2022: 84,791,045), 16,793,461 Performance Rights (31 December 2022: 10,826,192), and 31,058,521 Warrants (31 December 2022: nil). 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 2023 \$	30 June 2023 \$
57,637	1,052,421
57,637	1,052,421

Note 7. Trade and other receivables

7.1. Current
Trade receivables

31 Dec 2023 \$	30 June 2023 \$
125,353	37,869
125,353	37,869

Note 8. Inventories

8.1. Current
Finished goods

31 Dec 2023 \$	30 June 2023 \$
219,627	399,300
219,627	399,300

Note 9. Other assets

9.1. Current
Other current assets

31 Dec 2023 \$	30 June 2023 \$
56,001	45,327
56,001	45,327

Note 10. Financial assets

10.1 Non-Current

Convertible notes – transaction costs

Facilities, broker, and investors Options

Fees

Convertible Note – Embedded Derivative at initial recognition

Unwound transaction costs

31 Dec 2023 \$	30 June 2023 \$
1,523,334	1,523,334
70,000	70,000
793,190	793,190
(2,386,524)	(2,166,445)
-	220,079

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

10.1. 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 2023	30 June 2023
\$	\$
525,925	454,437
1,412,745	1,076,533
1,938,670	1,530,970

11.2. Current

Unsecured

Borrowings

Convertible notes – face value

31 Dec 2023	30 June 2023
\$	\$
14,860	363,885
1,475,000	1,475,000
1,489,860	1,838,885

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

Unearned revenues

31 Dec 2023	30 June 2023
\$	\$
118,490	137,647
118,490	137,647

Note 13. Borrowings

13.1. Non-Current

Secured Debt

31 Dec 2023	30 June 2023
\$	\$
2,925,197	2,355,237
2,925,197	2,355,237

13.2. On 28 April 2023, the Company entered into a secured debt deed of loan ("Deed") with a syndicate of primarily US-based investors to raise up to USD\$4 million. As of December 31, 2023, \$3,255,383 AUD had been raised. New funds raised total \$2,296,795 and rollover of existing loans total \$958,588. After Warrant reserve and amortization, loan balance at 31 December 2023 was \$2,925,197.

- **Term:** The term of the deed is 5 years with a minimum of 90 days, after which the facility can be repaid in whole or part, on 10 days' notice, with a 1% pre-payment fee being paid in respect of such amount of the Principal Sum as is prepaid.
- **Interest:** The interest rate will be fixed at 12% per annum, payable monthly.
- **Deed Warrants:** In consideration for participation in the Deed, investors will be granted fifteen (15) Initial Warrants for each US\$1.00 value of Loan note issued to the Lender at strike price of \$0.05 and an expiration date 3 years from issuance.

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

Note 14. Financial liabilities**Note**

	31 Dec 2023	30 June 2023
		\$
14.1. Current		
Convertible note – Embedded Derivative liability	384,375	384,375
	384,375	384,375

14.1. Current

Convertible note – Embedded Derivative liability

14.2

14.2. On 16 July 2020, the Company has entered into a Convertible Note Deed. 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 2023 No.	12 months to 30 June 2023 No.	6 months to 31 Dec 2023 \$	12 months to 30 June 2023 \$
Fully paid ordinary shares at no par value	232,427,382	230,668,020	18,254,257	18,223,976
15.1.1. Ordinary shares				
At the beginning of the period	230,668,020	153,394,650	18,223,976	16,065,022
<i>Shares issued during the half-year</i>			-	
□ Placement @\$0.03 per share	-	32,666,664	-	980,000
□ Rights Issue @\$0.03 per share	-	44,333,334	-	1,330,000
□ Former Director Shares issued per AGM	1,500,000	-	22,500	-
□ Conversion of employee performance shares	259,362	273,372	7,781	8,201
<i>Transaction costs relating to share issues</i>				
□ Cash	-	-	-	(120,599)
□ Equity based	-	-	-	(38,648)
At reporting date	232,427,382	230,668,020	18,254,257	18,223,976

18

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

Note 15 Equity (continued)

	Note	6 months to 31 Dec 2023 No.	12 months to 30 June 2023 No.	6 months to 31 Dec 2023 \$	12 months to 30 June 2023 \$
15.2. Options		84,791,045	84,791,045	5,159,648	5,159,648
Options		84,791,045	33,990,614	5,159,648	5,028,456
At the beginning of the period		-	-	-	-
■ Issue of options ¹	18	-	38,499,971	-	-
■ 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		84,791,045	84,791,045	5,159,648	5,159,648

¹ These are issued as free attaching options

	Note	6 months to 31 Dec 2023 No.	12 months to 30 June 2023 No.	6 months to 31 Dec 2023 \$	12 months to 30 June 2023 \$
15.3. Performance rights					
Performance rights		16,793,461	6,052,820	179,227	156,908
At the beginning of the period		6,052,820	5,514,660	156,908	285,827
Performance shares movement during the half-year:					
■ Issued	18.2	11,000,000	5,311,532	3,447	41,282
■ Previous year Vesting		-	-	26,653	-
■ Lapsed		-	(4,500,000)	-	(162,000)
■ Fair Value Adjustment		-	-	-	-
■ Converted to ordinary shares		(259,359)	(273,372)	(7,781)	(8,201)
At reporting date		16,793,461	6,052,820	179,227	156,908

15.4. Warrants

	Note	6 months to 31 Dec 2023 No.	12 months to 30 June 2023 No.	6 months to 31 Dec 2023 \$	12 months to 30 June 2023 \$
Warrants		31,058,521	24,150,000	428,091	387,366
At the beginning of the period		24,150,000	-	387,366	-
Warrants movement during the half-year:		-	-	-	-
■ Issue of warrants		6,908,521	24,150,000	40,725	-
At reporting date		31,058,521	24,150,000	428,091	387,366

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

Note 16. Events subsequent to reporting date

- Convertible notes (detailed in 14.2) matured on December 31, 2023. All investors signed deeds to extend the maturity date to at least 31 December 2024.
- An additional \$100k AUD received for secured debt facility detailed in note 13.2 subsequent to HY.

Note 17. Contingent liabilities

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

Note 18. Share-based payments

		Note	6 months to 31 Dec 2023 \$	6 months to 31 Dec 2022 \$
18.1.	Share-based payments:			
	Recognised in profit and loss (expenses)	18.2.1	30,100	(48,285)
	Recognised in equity (transaction costs)	18.2.2	-	38,648
	Recognised in financial assets (warrants)	18.2.3	40,725	-
	Movement in equity (transfer to share capital)		(7,781)	-
	Gross share-based payment		63,044	(9,637)

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. Performance Right C valuation assumption of 50% and Performance Right D valuation assumption of 90%.

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 conditions	Expiry Date	Performance Condition Satisfied	Fair Value
A	Upon achievement of a 90 day VWAP of 7 cents based upon shares traded on ASX over any period between allotment of the rights and 16 July 2024	1,150,383	Market Vesting	16 July 2024	No	8,505
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 Vesting	30 June 2025	No	3,459
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	7,348
D	Upon the Company reporting recurring monthly revenue (excluding development hardware sales or other one-off revenue) that exceeds expenses for any 3 month period prior to 30 June 2025	1,150,383	Non-Market Vesting	30 June 2025	No	7,348
Service	Upon tenure milestones	710,000	Non-Market Vesting	1 January 2025	Partial	13,229

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

18.2.1 Share-based payments recognized in profit and loss during the half-year (continued)**18.2.1.2. Performance Shares - Mr Daniel Roberts**

11,000,000 Performance Shares were approved at the Annual General Meeting held on 16 November 2023 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 condition	Expiry Date	Performance Condition Satisfied	Fair Value
1	Upon achievement of a 90 day VWAP of 7 cents based upon shares traded on ASX over any period between allotment of the rights and Upon achievement of a 90 day VWAP of 7 cents	1,500,000	Market Vesting	16 July 2024	No	58
2	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	1,500,000	Market Vesting	1 July 2025	No	427
3	Upon the releasing of Audited Financial Statements by the Company evidencing annual NPAT of at least A\$2,000,000 in any one of the FY23, FY24 and FY25	1,500,000	Non- Market Vesting	3 Sept 2025	No	855
4	Upon the Company reporting recurring monthly revenue (excluding development fees, hardware sales or other one-off revenue) items) that exceeds expenses for any 3 month period prior to 30 June 2024	1,500,000	Non- Market Vesting	1 July 2025	No	1,539
5	Upon the Company achieving a 90-day VWAP of 20 cents based upon shares traded over any period between allotment of the rights and 30 June 2025	5,000,000	Market Vesting	1 July 2025	No	568

18.2.1.3. Employee Performance Rights

Grant date	Performance Condition	Performance rights No.	Performance rights No. Vested @ 30 June 2023	Share price @ grant date \$	Performance rights No. Vested @ 31 Dec 2023	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	231,800	0.099	264,800	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	534
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	272,707	0.03	391,278	5,763
		3,879,488	3,221,495		672,578	9,086

Notes to the condensed consolidated financial statements

for the half-year ended 31 December 2023

Note 18.2.3 Warrants

New warrant liabilities were recognised at their fair value method, based on a Black Scholes valuation model. Assumptions applied were as follows:

Valuation Date	Share Price at 31 Dec 2024	Exercise Price	Expected Volatility	Warrant Life remaining	Fair Value per warrant at Valuation Date	Number of Warrants Issued	Total fair value of warrants
20 November 2023	\$0.0150	\$0.0500	103.30%	2.4 years	\$0.0051	5,258,521	\$26,811
7 August 2023	\$0.0200	\$0.0500	100.90%	2.7 years	\$0.0084	1,650,000	\$13,914

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.

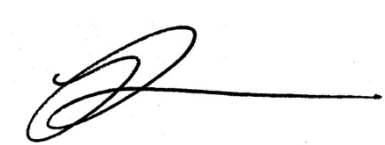
Unless stated otherwise, all amounts reported to the Board of directors as the chief operating decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group. During the current period, the Group is considered to operate in 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 2023 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 Thursday, 29 February 2024

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 Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 Consolidated Entity's financial position as at 31 December 2023 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 \$2,058,176 during the half year ended 31 December 2023. 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 the Company 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 2023 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 WA AUDIT PTY LTD


MARK DELAURENTIS CA
Director

Dated this 29th day of February 2024
Perth, Western Australia