scout

SCOUT SECURITY LIMITED

ACN 615 321 189

SCOUT SECURITY LIMITED

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

SCOUT SECURITY LIMITED
ACN 615 321 189
INTERIM FINANCIAL REPORT 31 DECEMBER 2017

CORPORATE DIRECTORY

Directors

Mr John Strong – Non-Executive Chairman
(Appointed 22 August 2017)
Mr Daniel Roberts – Chief Executive Director
(Appointed 22 August 2017)
Mr David Shapiro –Executive Director
(Appointed 22 August 2017)
Mr Anthony Brown – Non-Executive Director
(Appointed 22 August 2017)
Mr Sol Majteles - Non-Executive Director
(Appointed 22 August 2017)

Mr Ananda Kathiravelu - Non-Executive Director
(Resigned 22 August 2017)
Mr John Moore - Non-Executive Director
(Resigned 22 August 2017)
Mr Michael Shaw-Taylor - Non-Executive Director
(Resigned 22 August 2017)

Home Stock Exchange

Australian Securities Exchange Limited
Level 40
Central Park
152-158 St George's Terrace
PERTH WA 6000

ASX Code:
SCT (Ordinary Shares)

Company Secretary

Mr Stuart Usher

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Registered Office - Australia

Unit 7, 151 Macquarie Street
SYDNEY NSW 2000

Bankers

Westpac Banking Corporation
130 Rokeby Road
SUBIACO WA 6008

Registered Office – United States

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

Share Registry

Link Market Services
Central park
Level 4, 152 St Georges Terrace
PERTH WA 6000

Solicitors

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

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INTERIM FINANCIAL REPORT 31 DECEMBER 2017

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SCOUT SECURITY LIMITED
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DIRECTORS' REPORT

The Directors of Scout Security Limited (the **Company**) and controlled entities (the **Group** or **Consolidated Entity**) submit the following report for the half year ended 31 December 2017 (**Financial Period**).

DIRECTORS

The names and the particulars of the Directors of the Company during the half year and to the date of this report are:

Name	Status	Appointed
Mr John Strong	Non-Executive Chairman	Appointed 22 August 2017
Mr Daniel Roberts	Chief Executive Officer & Executive Director	Appointed 22 August 2017
Mr David Shapiro	Executive Director	Appointed 22 August 2017
Mr Anthony Brown	Non-Executive Director	Appointed 22 August 2017
Mr Sol Majteles	Non-Executive Director	Appointed 22 August 2017
Mr Ananda Kathiravelu	Non-Executive Director	Resigned 22 August 2017
Mr John Moore	Non-Executive Director	Resigned 22 August 2017
Mr Michael Shaw-Taylor	Non-Executive Director	Resigned 22 August 2017

COMPANY SECRETARY

Mr Stuart Usher

REVIEW AND RESULTS OF OPERATIONS

The net loss of the Group after income tax for the half year ended 31 December 2017 amounted to $(2,703,878) (31 December 2016: ($1,061,851 net loss).

REVIEW OF ACTIVITIES

During the half year ended 31 December 2017, the following activities were undertaken.

<u>Acquisition of Scout Security Inc.</u>

On 22 August 2017 Scout Security Limited ("Scout Australia"), acquired 100% of the issued capital of Scout Security Inc. ("Scout USA") in exchange for 69,900,000 ordinary shares. This was in accordance with a binding heads of agreement dated 12 December 2016 (and amended and restated by the Deed of Amendment and Restatement dated 27 February 2017).

Under the terms of the agreement, Scout Australia issued 69,900,000 Ordinary fully paid shares to the shareholders of Scout USA and 36,000,000 Performance Shares to the incoming CEO and Executive Director, Mr Daniel Roberts and Executive Director, Mr David Shapiro.

Completion of the merger was conditional upon the Company undertaking a capital raise and receiving applications for at least $5,000,000 worth of shares. In accordance with the prospectus dated 23 June 2017 the Company successfully raised $5,010,500, by the issue of 25,052,500 Ordinary Shares on 22 August 2017. In addition 15,000,000 Capital Raise Options and 6,000,000 Director Options were issued in accordance with the prospectus.

On 23 August 2017, having accepted the resignations of Mr Ananda Kathiravelu, John Moore and Michael Shaw-Taylor as directors of the Company, and having received the consent to act, the appointment of Mr Daniel Roberts, Mr David Shapiro, Mr Sol Majteles, Mr Anthony Brown and Mr John Strong as directors of the Company.

Having satisfied all the conditions precedent in the HOA, the Company was listed on the ASX on 25 August 2017.

For accounting purposes, Scout USA has been identified as the controlling entity of the consolidated group. The accompanying consolidated financial statements represent a continuation of Scout USA's financial statements. The consolidated results reflect a full half-year of Scout USA plus Scout Australia from the date of listing, 22 August 2017 to 31 December 2017. The comparative period results reflect Scout USA only.

On 13 December 2017 the Company announced a further placement of $1.75M supported by Australian and Asian institutional investors.

Details of other operational matters are contained in the ASX release accompanying this report.

SUBSEQUENT EVENTS

There have been no matters or circumstances that have arisen since 31 December 2017 that have significantly affected or may significantly affect:

- the Group's operations in future years; or
- the results of those operations in future years; or
- the Group's state of affairs in future years.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to the Directors of the Consolidated Entity on page 23 forms part of the Directors' Report for the half year ended 31 December 2017.

This report is signed in accordance with a resolution of the Board of Directors.

Mr Daniel Roberts
Chief Executive Officer and Executive Director
2 March 2018

SCOUT SECURITY LIMITED
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INTERIM FINANCIAL REPORT 31 DECEMBER 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Note	Half year ended 31 December 2017 $	Half year ended 31 December 2016 $
Revenue		957,209	796,918
Cost of sales		(623,495)	(749,465)
Gross profit		333,714	47,453
Other income		1,474	-
Consulting & professional fees		(465,639)	(205,147)
Depreciation and amortisation expense		(34,095)	(1,779)
Employee expenses		(728,716)	(635,929)
Listing fee expense on acquisition of Scout USA	10	(696,000)	-
Rental costs		(36,345)	(23,269)
Share based payments	10	(654,000)	-
Information technology costs		(73,678)	(42,940)
Sales and marketing		(125,219)	(20,598)
Shipping and postage		(12,301)	(65,911)
Travel and entertainment		(39,255)	(22,350)
Other expenses		(173,818)	(91,381)
Loss before income tax expense		(2,703,878)	(1,061,851)
Loss for the year		**(2,703,878)**	**(1,061,851)**
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation (net of tax)		35,328	(83,718)
Total comprehensive loss for the period net of tax		**(2,668,550)**	**(1,145,569)**
Basic and diluted loss per share (cents)	12	(3.59)	(1.40)

The accompanying condensed notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	31 December 2017 $	30 June 2017 $
CURRENT ASSETS			
Cash and cash equivalents		1,815,558	35,509
Inventory		395,496	252,773
Prepayments – Inventory Orders		1,279,993	-
Trade Receivables		20,536	-
Other current assets		219,394	28,700
TOTAL CURRENT ASSETS		3,730,977	316,982
NON-CURRENT ASSETS			
Plant and equipment		88,790	122,885
Goodwill		256,410	260,010
TOTAL NON-CURRENT ASSSETS		345,200	382,895
TOTAL ASSETS		4,076,177	699,877
CURRENT LIABILITIES			
Trade and other payables		1,945,638	3,031,543
Loans		-	84,638
TOTAL CURRENT LIABILITIES		1,945,638	3,116,181
TOTAL LIABILITIES		1,945,638	3,116,181
NET ASSETS/(DEFICIENCY)		**2,130,539**	**(2,416,304)**
EQUITY			
Issued capital	6	8,944,070	5,019,272
Reserves	7	3,554,138	228,213
Accumulated losses		(10,367,669)	(7,663,789)
TOTAL EQUITY		**2,130,539**	**(2,416,304)**

The accompanying condensed notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Share Capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Exchange Reserve $	Total $
Balance as at 1 July 2017	5,019,272	(7,663,789)	-	228,213	(2,416,304)
Total Comprehensive Income					
Loss for the period	-	(2,703,878)	-	-	(2,703,878)
Foreign currency translation differences	-	-	-	35,328	35,328
Total comprehensive loss for the period	-	(2,703,878)	-	35,328	(2,668,550)
Transactions with owners in their capacity as owners:					
Issue of shares capital net of costs	5,865,395	-	-	-	5,865,395
Share based payments	(1,940,597)	-	3,290,597	-	1,350,000
Balance as at 31 December 2017	**8,944,070**	**(10,367,669)**	**3,290,597**	**263,541**	**2,130,539**

	Issued capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Exchange Reserve $	Total $
Balance as at 1 July 2016	4,847,204	(5,240,539)	-	(46,961)	(440,296)
Total Comprehensive Income					
Loss for the period	-	(1,061,851)	-	-	(1,061,851)
Foreign currency translation differences	-	-	-	(83,718)	(83,718)
Total comprehensive loss for the period	-	(1,061,851))	-	(83,718)	(1,145,569)
Transactions with owners in their capacity as owners:					
Issue of share capital net of costs	362,592	-	-	-	362,592
Balance as at 31 December 2016	**5,209,797**	**(6,302,390)**	**-**	**(130,679)**	**(1,223,272)**

The accompanying condensed notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Half year ended 31 December 2017 $	Half year ended 31 December 2016 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	936,673	871,274
Payments to suppliers and employees	(4,956,402)	(1,304,028)
Interest received	1,474	-
Net cash used for operating activities	(4,018,255)	(432,754)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(75,027)
Net cash used in investing activities	-	(75,027)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	6,610,050	348,115
Share issue costs	(749,605)	-
Interest paid	-	(7,555)
Repayment of borrowings	(84,638)	(33,125)
Net cash provided by financing activities	5,776,257	307,436
Net increase/(decrease) in cash and cash equivalents held	1,758,002	(200,345)
Cash and cash equivalents at the beginning of period	57,556	355,382
Exchange rate changes on the balance of cash held in foreign currencies	-	-
Cash and cash equivalents at the end of period	1,815,558	155,037

The accompanying condensed notes form part of these financial statements.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

NOTE 1: REPORTING ENTITY

The interim financial report (**Report**) of Scout Security Limited (the **Company**) and it's controlled entities (the **Group**) (**Consolidated Entity**) for the half year ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on 2 March 2018.

Scout Security Limited is a listed public company, trading on the Australia Securities Exchange, limited by shares, incorporated and domiciled in Australia.

NOTE 2: BASIS OF PREPARATION

The half-year financial report is a general purpose financial report prepared in accordance with AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity. The half-year financial report should be read in conjunction with the annual financial report of Scout Security Limited. As at 30 June 2017 which was prepared in accordance with the requirements of the *Corporations Act 2001* and applicable Australian Accounting Standards. It is also recommended that the half-year financial report be considered together with any public announcements made by the Company during the period 1 July 2017 to the date of this report in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The half-year financial report has been prepared on the basis of historical cost, except where stated. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

These financial statements are presented in Australian dollars.

(i) Going Concern

These half-year financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

For the half year ended 31 December 2017 the consolidated entity incurred a consolidated net loss from continuing operations for the year of $2,703,878, and a net cash outflow to operating activities of $4,018,255.

The consolidated entity may need to raise additional capital and / or negotiate extended terms with key creditors in order to meet working capital requirements and to execute its near term and medium term plans for expansion of its product portfolio in the event that sufficient revenue is not generated in the normal course of business.

These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business

Management believe that there are sufficient funds available to continue to meet the Group's working capital requirements as at the date of this report. 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 consolidated entity for the following reasons:

- Continued sales growth through the Amazon platform and other online web stores and the ability to meet forecast sales growth through currently held and prepaid inventory;
- Introduction of new products that are expected to generate additional hardware revenue and recurring revenue from associated services;

- Scout's track record of selling home security systems and related services over the past 4 years in the US market.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements or raise additional capital through equity or debts raisings and that 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.

The directors plan to continue the consolidate entity's operations on the basis as outlined above, and believe there will be sufficient funds for the Group to meet its obligations and liabilities for at least twelve months from the date of this report.

(ii) Capital reorganisation

On 22 August 2017 Scout Security Limited, the legal parent entity merged with Scout Security Inc. (Scout). This was in accordance with a binding heads of agreement dated 12 December 2016 (and amended and restated by the Deed of Amendment and Restatement dated 27 February 2017), pursuant to which the Company acquired Scout Security Inc. by way of a merger.

Under the terms of the agreement, Scout Security Limited issued 69,900,000 Ordinary fully paid shares to the shareholders of Scout Security Inc., and 36,000,000 Performance Shares to the incoming CEO and Executive Director, Mr Daniel Roberts and Executive Director, Mr David Shapiro.

Completion of the merger was conditional upon the Company undertaking a capital raise and receiving applications for at least $5,000,000 worth of shares. In accordance with the prospectus dated 23 June 2017 the Company successfully raised $5,010,500, by the issue of 25,052,500 Ordinary Shares on 22 August 2017. In addition 15,000,000 Capital Raise Options and 6,000,000 Director Options were issued in accordance with the prospectus.

In accordance with the Australian Accounting Standards, the acquisition does not meet the definition of a business combinations as Scout Security Limited was established for the sole process of facilitating the listing process and to acquire Scout Security Inc. by way of an equity swap. The shareholders of Scout Security Inc. received the same proportion of equity instruments in Scout Security Limited.

(iii) Comparative figures

The comparative financial information included in the Company's financial information is that of Scout Security Inc, not the Company. The result of the current period comprises Scout Security Inc for the period 1 July 2017 to 22 August 2017 and the enlarged Group from 22 August 2017 to 31 December 2017. However, the capital structure of the legal acquirer, the Company, is adopted in this half-year financial report.

(iv) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all the subsidiaries that Scout Security Limited has the power to control the Group when it is exposed to, or has rights to, variable returns from its involvement with the Group and has the ability to affect those returns through its power to direct the activities of the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transactions provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(v) Adoption of Accounting Policies

The accounting policies adopted are consistent with the accounting policies of Scout Security Limited last annual financial report for the year ended 30 June 2017 and corresponding interim reporting period. The following significant accounting policies have been adopted in the preparation and presentation of the half-year financial report for:

a) Adoption of new and revised accounting standards

In the half-year ended 31 December 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2017.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies as a result of the adoption of new and revised accounting standards.

The Directors have reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2017. The Directors have decided against early adoption of any new Standards and Interpretations. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies as a result of accounting standards issued not yet effective.

i. Earnings Per Share

The weighted average number of shares outstanding for the half year ended 31 December 2017 is based on the weighted average number of shares of Scout Security Limited outstanding in the period following the acquisition. The comparative weighted average number of shares is based on the legal subsidiary's (Scout Security Inc) weighted average share multiplied by the exchange ratio.

ii. Performance shares

The Group has not recognised any cast associated with the issue of the performance shares as there remains significant uncertainty as to whether the performance milestones will be met and the performance shares will convert to ordinary shares. For full details of the terms of the performance shares see note 11.

c) Foreign currency transactions and balances

i. Functional and presentation currency
Items included in the Financial Statements of each of the Company entities are measured using the currency of the primary economic environment in which the Entity operates ('the functional currency'). Scout Security Limited, has a functional currency of the Australian Dollar (AUD).The functional currency of Scout Security Inc. is the United States Dollar.

The half-year financial statements are presented in Australian Dollars (AUD), which is Scout Security Limited's presentation currency.

ii. Foreign currency transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair value was determined.

iii. Translation of Foreign Operations

For the purposes pf presenting these consolidated financial statements in Australian Dollars, the Statement of Profit or Loss and other Comprehensive Income is translated at the average exchange rates for the period and the assets and liabilities are translated at the rate prevailing at the end of the reporting period. . The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of the foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation will be recognised in the Statement of Profit or Loss and Other Comprehensive Income.

d) Principles of Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

e) Inventories

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

f) Goodwill

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

g) Revenue Recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and it is probable that the Company will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer. Revenue from services is recognised when those services have been rendered under an agreement, provided that the amount of revenue can be measured reliably and that it is probable that the economic benefits associated with the transaction will flow to the Company.
Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the normal course of business, net of returns and discounts.

h) Accounts Receivable

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

i) Current and Non-current Classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realized or intended to be sold or consumed in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realized within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

j) Property and Equipment

All property and equipment assets are stated at cost less accumulated depreciation.

Depreciation of property and equipment is provided to write off the cost, less residual value, on a straight line basis over the useful life. Machinery and equipment useful lives range between 3 and 7 years.

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate. Gains or losses on disposal are included in profit or loss.

k) Prepayments
Prepaid expenses primarily relate to prepaid inventory orders.

l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Due to recurring losses, no tax is currently payable.

Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the statement of financial position. Deferred tax assets and liabilities are not recognised if they arise in the following situations: the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of the deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Due to the improbability that a deferred tax asset would be used in future years, no deferred tax asset was recorded for net operating loss carry forwards.

The Company files United States (US) income tax returns and may be subject to income taxes in states in which it conducts business. All tax returns filed remain subject to examination by the Internal Revenue Service and state agencies.

m) Provisions

Provisions are recognised when the Company has an obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

o) Share based Payments

Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be realibly measures, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vests.

Significant Judgements and Key Assumptions

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

a) Capital Reorganisation

As outlined in Note 1(ii) the group has applied continuation accounting meaning the accounts are presented as a continuation of Scout USA.

b) Share based payment expenses

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instrument at the date at which they are granted. The fair value of options granted is measured using the Black-Scholes option pricing model. The model uses assumptions and estimates as inputs. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

The Company issued performance shares during the half-year ended 31 December 2017 based upon the conditions set out in Note 10. The Company follows the guidelines of AASB 2 'Share Based Payments' and takes into account non-market vesting conditions and estimates the probability and expected timing of achieving the performance conditions.

c) Impairment of Goodwill

The Group tests annually whether goodwill and other intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2. No impairment has been recognised in respect of Goodwill at the end of the reporting period.

NOTE 3: CAPITAL REORGANISATION

Summary of Acquisition

On 13 October 2016, Scout Security Limited (the acquirer) was incorporated in Australia primarily for the purpose of investing in US security technology companies.

On 22 August 2017, the Company completed a transaction with the shareholders of Scout Security Inc. 9 (USA) under common control to acquire 100% of the share capital in Scout Security Limited in exchange for 69,900,000 ordinary shares in the Company.

As at the date of acquisition, the assets and liabilities of the Company were as follows:

	$
(a) Assets and Liabilities at Acquisition Date	
Cash and cash equivalents	2,610,587
Prepayments	24,726
Intercompany loan receivable	294,434
Trade and other payables	(3,032,947)
Net liabilities of Scout Security Limited	**(103,203)**

NOTE 4: SEGMENT INFORMATION

The Company has identified its operating segment based on internal reports that are reviewed by the Board and management. The company has one operating segment being home security services in the USA.

NOTE 5: CONTINGENT LIABILITIES

The Directors are not aware of any other contingent liabilities as at 31 December 2017.

NOTE 6: ISSUED CAPITAL	31 December 2017 $	30 June 2017 $
(a) Share Capital		
108,123,685 (30 June 2017: 5,000,001) fully paid ordinary shares	8,944,070	690,001

	No.	$
(b) Movement in Ordinary Capital		
Opening balance at 1 July 2017[1]	5,000,001	690,001
Seed capital raising	1,875,000	300,000
Less: adjustment for continuation accounting[2]	(6,875,000)	(990,001)
Issue of shares to Scout Security Inc.	69,900,000	4,955,099
Issue of shares in relation to capital raising via public offer	25,052,500	5,010,500
Issue of shares via private placement	5,333,334	1,600,000
Issue of shares to advisors for capital raising services	962,850	192,570
Less: Capital raising costs	-	(2,703,880)
Closing balance at 31 December 2017	**108,123,685**	**8,944,070**

(1) The application of continuation accounting for the acquisition and consolidation of the common control entity: Scout Security Inc. required the value of Scout Security Inc shares on issue as at 30 June 2017 as a comparative

(2) The Company issued 69,900,000 fully paid ordinary shares to Scout Security Inc shareholders, refer to Note 3 for further information.

CONDESED NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

NOTE 7: RESERVES	**31 December 2017** $	**30 June 2017** $
(b) Options and Rights		
26,800,000 options on issue	3,290,000	-
36,000,000 performance shares	-	-
	No.	**$**
(c) Movement in Options and Rights		
Opening balance at 1 July 2017	-	-
Director Options – 22 Aug 2017	6,000,000	654,000
Capital Raising Options – 22 Aug 2017	15,000,000	1,740,000
Capital Raising Options – 20 Dec 2017	5,800,000	896,000
Closing balance at 30 June 2017	26,800,000	3,290,000
Issue of performance shares	36,000,000	-
Closing balance at 31 December 2017	**62,800,000**	**3,290,000**

Refer note 10 for assumptions and details of the issue of options and performance shares during the period.

NOTE 8: DIVIDENDS

The Company did not pay or propose any dividends in the half year to 31 December 2017.

NOTE 9: SUBSEQUENT EVENTS

There have been no matters or circumstances that have arisen since 31 December 2017 that have significantly affected or may significantly affect:

- the Group's operations in future years; or
- the results of those operations in future years; or
- the Group's state of affairs in future years.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

NOTE 10: PERFORMANCE SHARES AND OPTIONS

Performance Shares

During the half year ended 31 December 2017, the following performance shares were issued:

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

The performance milestones are summarised below:

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

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

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

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

Options

During the half year ended 31 December 2017, the following options were issued:

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

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

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

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

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

Item	Options
Number of options	5,800,000
Exercise price ($)	$0.28
Valuation (grant) date	20 Dec 2017
Expiry date	20 Dec 2020
Time to expiry (years)	3.00
Volatility	100%
Exercise conditions	Nil
Value per option	$0.169

Share Based Payments Expense

Share based payments expense at 31 December 2017 is comprised as follows:

	31 December 2017 $	31 December 2016 $
Expense		
Issue of 15,000,000 broker options	696,000	-
Issue of 6,000,000 director options	654,000	-
Total expense recognised in profit or loss	1,350,000	-
Cost of capital		
Issue of 15,000,000 broker options	1,044,000	-
Issue of 962,850 broker shares	192,570	-
Issue of 5,800,000 options	896,000	-
Total expense recognised in equity	2,132,570	-
Total share based payments expense	**3,482,570**	**-**

NOTE 11: LOSS PER SHARE

The following reflects income and share data used in the calculation of basic and diluted loss per share.

	31 December 2017 $	31 December 2016 $
Total loss for the period	2,703,879	1,061,851
	No.	**No.**
Weighted average number of ordinary shares in calculating basic and diluted loss per share	**75,345,837**	**75,345,837**

CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

The weighted average number of ordinary shares outstanding (the denominator of the EPS Calculation) for the half years ended 31 December 2017 and 31 December 2016 has been adjusted to reflect the capital reorganisation. The weighted average number of shares outstanding for the half year ended 31 December 2017 is based on the weighted average number of shares of Scout Security Inc. outstanding in the period following the acquisition. The share capital of capital of Scout Security Limited as at 31 December 2016 was 5,000,001 shares on issue which the shareholders subsequently exchanged for shares in the Company.

NOTE 12: RELATED PARTY TRANSACTIONS

During the half year ended 31 December 2017, the following related party transactions have occurred:

- Scout Security Limited issued 69,900,000 ordinary shares to shareholders of Scout Security Inc. as consideration for the acquisition. This included 7,943,397 ordinary shares issued to the CEO, Executive Director and co-founder Mr Dan Roberts and 7,747,861 ordinary shares issued to the Executive Director and co-founder Mr David Shapiro.

- Scout Security Limited issued 36,000,000 performance shares to the incoming CEO and Executive Director, Mr Dan Roberts and Executive Director Mr David Shapiro as consideration for the acquisition of Scout Security Inc. 18,000,000 performance shares issued to the CEO and Executive Director Mr Dan Roberts and 18,000,000 performance shares issued to the Executive Director Mr David Shapiro.

- The amounts paid as director's fees for the half year ended 31 December 2017 totalled to $34,343.

- Salaries paid to CEO and Executive Director, Mr Dan Roberts were $81,455 and Executive Director Mr David Shapiro totalled $86,392.

- Prior to the acquisition of Scout Security Inc., Scout Security Limited provided a loan to Scout Security Inc. totalling to $294,433.

DIRECTORS' DECLARATION

The Directors of Scout Security Limited declare that:

1. The financial statements and notes, as set out on pages 6 to 20 are in accordance with the Corporations Act 2001 and:
    a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
    b) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and of its performance for the period ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Group 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.

Mr Daniel Roberts
Chief Executive Officer and Executive Director
2 March 2018

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DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF SCOUT SECURITY LIMITED

As lead auditor for the review of Scout Security Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Scout Security Limited and the entities it controlled during the period.

Neil Smith
Partner

BDO Audit (WA) Pty Ltd

Perth, 2 March 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Scout Security Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Scout Security Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, 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 the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year 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 internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134

Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO

BDO Audit (WA) Pty Ltd

Neil Smith
Director

Perth, 2 March 2018