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SCOUT SECURITY LIMITED
ACN 615 321 189

ANNUAL REPORT

SCOUT SECURITY LIMITED
FOR THE ENDED 30 JUNE 2018

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CORPORATE DIRECTORY

Directors

Mr John Strong – Non-Executive Chairman

Mr Daniel Roberts – Chief Executive Director

Mr David Shapiro –Executive Director

Mr Anthony Brown – Non-Executive Director

Mr Sol Majteles - Non-Executive Director

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

Registered Office - Australia

Suite 1, GF, 437 Roberts Road
SUBIACO WA 6008

Registered Office – United States

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

Solicitors

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

Auditor

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

Bankers

Westpac Banking Corporation
130 Rokeby Road
SUBIACO WA 6008

Share Registry

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

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Chairman's Message

Dear Shareholder,

I am pleased to welcome you to the 2018 Annual Report for Scout Security Limited (ASX: SCT). In this report, we reflect on almost a full year of operations since our listing on the Australian Securities Exchange in August 2017, having completed an Initial Public Offer (IPO) which raised $5 million to help Scout accelerate its business.

Scout offers and manages security products, providing a self-installed home security system that is smart, modern and affordable – for consumers, alarm dealers and enterprises. Scout aims to be the go-to experience for connected smart home security. We believe security is a Trojan horse into the Internet of Things (IOT), solving a known problem that people will pay for.

In the United States, where Scout is based, 80% of the population lives unprotected by security. We aim to change that to enable people to feel safer in their homes, and we are targeting the Generation X and Millennial demographic groups who understand how our technology can improve their lives.

In today's world, Scout believes that traditional security systems do not meet the needs of modern consumers. Dated, one-size-fits-all offerings for IOT are confusing and fail as smart home solutions. Scout offers a simple and affordable solution which is portable, modern and minimal with high-end technology and integrations. We have flexible fees that are month to month or annual and can be customised, making Scout an attractive option to consumers and helping Scout build on its recurring monthly revenue (RMR).

Since our listing on the ASX, we have struck several important sales partnerships and entered new channels, building on our existing relationship with US retail giant Amazon, which remains a large and committed shareholder in the Company. Our partnership with Zego, formerly CasaIQ, a smart technology provider that targets managers and tenants of multifamily dwellings, or apartment blocks, has seen us deliver more than 4,000 Scout hubs, on track for sale of up to 10,000 units in a 12-month period. We partnered with COPS Monitoring, the largest security monitoring company in the US, which is reselling our products to its network of 3,500 alarm dealers. We also launched a DIY package that 13,000 alarm dealers across the US can sell into their local markets in either a branded or white label form.

In terms of product development, we also had a busy year, with the launch of our high-definition 1080p camera a key milestone. This camera can be bundled into our security system and offers the ability for our monitoring centre to verify incidents, providing for a faster and more efficient police response and reducing the incidence of false alarms, which is a saving to consumers, Scout and police. This bolsters our product offering and gives Scout an edge over many competitors. We also upgraded our system by integrating Smart Lock technology through our partnership with ASSA ABLOY, which further adds to our market advantage.

Post year-end, we signed a partnership deal with Stanley Black & Decker, Inc to licence Scout's home security platform and hardware suite. Stanley Black & Decker has been in business for 175 years and is the second largest provider of security services globally. We are excited to be working with SBD on the future of home security platforms with a world leading company, and honoured that a company such as SBD has recognised the value of our technology. We look forward to providing more news on this partnership in 2019.

During the year, we completed an oversubscribed $1.75 million share placement to support investment in Scout's hardware and expedite the inclusion of the HD camera into Scout's home security product suite. I thank new and existing shareholders for their support in this exercise, as well as our IPO.

I also thank my fellow Board members and Scout's management and staff for their work over the past year, particularly in the busy time leading up to the ASX listing and helping the Company build on its foundations since then.

We made great strides in growing Scout during 2018, achieving the goals we had mapped out. As we build our relationship with Stanley Black & Decker in 2019 as well as continue our progress across our multiple sales channels, I believe we will deliver strong and consistent growth through device sales as well as recurring monthly services revenue, which will improve our financial position. We also plan to unveil new devices, integrations and system capabilities in the coming year which we expect to provide a steady flow of positive news. I look forward to sharing Scout's success with you.

John Strong
Chairman

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The Director's present their report, together with the financial report of Scout Security Limited for the year ended 30 June 2018 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

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

John Strong – Appointed 22 August 2017
Daniel Roberts – Appointed 22 August 2017
David Shapiro – Appointed 22 August 2017
Anthony Brown – Appointed 22 August 2017
Sol Majteles – Appointed 22 August 2017
Ananda Kathiravelu – Resigned 22 August 2017
John Moore – Resigned 22 August 2017
Michael Shaw-Taylor – Resigned 22 August 2017

Particulars of each director's experience and qualifications are set out later in this report.

Principal activity
Scout Security Limited listed on the Australian Securities Exchange (ASX) on 25 August 2017 following a successful Initial Public Offer which raised $5 million. The Company was founded in Chicago, USA in 2013 and built a strong base of recurring subscription revenue, with incredible potential for future growth.
Scout Security sells the Scout Alarm – a "smart" wireless home security system that can be self-installed – into the US home security market which is estimated to be worth US$23 billion. The system uses the "Internet of Things" (IoT) and its early success validates that it is providing a solution to a problem that people will pay for - security.

Financial results
The financial results of the Company for the 12 months ended 30 June 2018 are:

	30 June 2018	30 June 2017
Cash and cash equivalents ($)	269,616	35,509
Net assets/(liabilities) ($)	427,730	(2,416,304)
Total revenue ($)	1,893,009	1,728,415
Net loss after tax ($)	(3,950,539)	(2,423,250)

Review of operations

Sales

Scout's sales gained momentum during the year, reporting strong sales in December that flowed into the start of the 2018 calendar year, adding recurring monthly revenue at an increased rate from each month from January.

Sales continued to gain momentum as the Company maintained full stock levels and actively advertised through digital marketing channels.

Sales mix continued to shift towards monitoring services which yield high-margin recurring monthly revenue (RMR), which represented more than half of Scout's overall book of business in each month of the March quarter.

Smart lock integrations and integration of the 1080p HD camera expanded Scout's product offering and is expected to encourage customer adoption and retention, while boosting average revenue per user (ARPU) over time.

Partnerships and Sales Channels

Amazon

Scout is an Amazon portfolio company, an official integration partner of Amazon Alexa, a user of Amazon AWS, Amazon AMS and a vendor on the Amazon marketplace. Amazon is a top 10 shareholder in Scout and a key distribution partner.

Scout systems are sold through the Amazon marketplace. Funds from Scout's IPO allowed it to restock its products sold through Amazon in the December quarter and commenced marketing on the Amazon AMS platform, the equivalent of Google's pay-per-click platform within the Amazon marketplace.

Stanley Black & Decker

Post year-end, in August 2018, Scout announced it had signed a partnership deal with Stanley Black & Decker, Inc to licence Scout's home security platform and hardware suite.

Stanley Black & Decker has been in business for 175 years and is the 2nd largest provider of security services globally.

Stanley Black & Decker's business units operating in the security industry provide solutions for residential, commercial, alarm dealer and monitoring centre customers, segments in which Scout has spent the past five years targeting opportunities and developing a robust product set built on its DIY software platform. The companies have identified several short-term and long-term potential applications of the Scout platform to augment SBD's customer solutions.

The Company expects this partnership to start materially contributing to Scout revenue starting in the March 2019 quarter.

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Zego (formerly CasaIQ)

In October 2017, Scout announced a sales partnership with Zego (formerly CasaIQ Inc), a company which provides smart home device and service packages to tenants and managers of multifamily dwellings (apartment blocks). This market in the US is estimated at nearly 19 million units.

Zego's packages act as a bridge into the connected home for renters and help owners and managers to differentiate their properties when acquiring and retaining tenants. Its initial package includes a base of smart home devices on top of which it is able to layer a range of security sensors and value-added services.

The partnership allowed Scout to fast-track its market penetration into the multifamily channel.

Under the partnership, Scout licensed its platform to power the Zego hub, allowing Zego to offer Scout's home security devices and monitoring service with the aim of increasing Scout's recurring monthly revenue.

To the end of FY18, Zego had ordered more than 3,000 Scout hubs and remained one of the Company's key resale partners. An additional 1,000 unit order was received shortly after year end. It is on track to order between 5,000 and 10,000 Scout systems in the 12 months to October 2018.

COPS Monitoring

In November, Scout announced the signing of a resale deal with COPS Monitoring to resell Scout's DIY product suite to its network of 3,500 alarm dealers.

COPS is the largest independent security monitoring centre in the USA, founded in 1978 with more than 2.4 million home security accounts under management. Scout had already worked with COPS for four years, providing monitoring for COPS' direct-to-consumer offering.

This agreement will see Scout gain access to consumers who may prefer to buy through a local, trusted dealer and significantly shortened its sales cycle, accelerating its time-to-market, leveraging on COPS' dealer relationships.

ASSA ABLOY

In the December quarter, Scout announced an integration with ASSA ABLOY's Yale Smart Living line of connected smartlocks. These locks provide users with the ability to lock and unlock home doors remotely and offer the ability to synchronise door lock and unlocking with Scout security modes.

Scout customers can integrate Yale Smart Living locks with Scout's direct-to-consumer packages as well as its white label suite of products. Scout also commenced selling the smart lock through its website.

Hanover Insurance

In September 2017, Scout announced it had signed a deal with Hanover Insurance Group Inc., a top 25 US insurnce provider and one of the oldest continuously running insurance companies in the US.

Under the agreement, Hanover sells Scout's home security kids to its customers and employees as part of its "Partners in Protection" program. The program seeks to reduce claims from property loss and also analyses data from connected devices with the goal of increasing Hanover's ability to more effectively price its customers' insurance premiums.

Hanover has an engaged and growing customer base of more than 2 million home and business policy holders, and nearly 5,000 employees.

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Sales through Alarm Dealers

Scout developed a DIY security solution and product suite that could be customised by regional alarm dealers for sale into local markets.

It launched this in November, targeting the network of 13,000 alarm dealers in the US, a market worth more than US$23 billion per year.

The DIY product suite combined Scout's proprietary platform with third-party hardware functionally similar to Scout's direct-to-consumer offering, allowing alarm dealers to sell Scout's product suite and use their own branding on the hardware and software for a fee, or using an alternate brand from Scout.

The Company engaged with dealers and monitoring centres in the December quarter, ahead of exhibiting at the international security conference, ISC West, in Las Vegas in April 2018 and continues to have discussions with new dealers about adopting and selling the platform.

Brick and mortar retail

In the December quarter, Scout announced a deal with retail growth consultant Scale2Shelf to accelerate placement of Scout's self-installed home security products into the bricks and mortar retail channel.

Scale2Shelf is party of the Sprosty Network, formed by a team of highly experienced former senior merchant executives who have built multi-billion-dollar retail categories through strong relationships and potential sales representation into brick and mortar retailers in the US.

Bricks and mortar retail accounts for nearly 90% of retail sales in the US, or about US$4 trillion a year. The top 10 US retailers, apart from Amazon where Scout has an existing sales presence, are primarily physical retail chains.

Scale2Shelf is helping Scout secure placement into brick and mortar retailers in the US, working with executives with experience at Scout's target retailers including Walmart, Best Buy, Home Depot, Target and Costco.

Scout established a targeted list of retailers and worked with Scale2Shelf on mapping Scout products for retailer-specific assortments.

Product Development

Scout's system is increasingly robust and integrates with all key connected home ecosystems including Amazon Alexa, Google Home, Nest, Samsung SmartThings, IFTTT and Phillips Hue.

During the September quarter, Scout worked to expand system capabilities and move new integrations closer to production. New features and capabilities serve the dual purpose of expanding functionality to attract new customers and allow Scout to enter new sales channels via partnerships.

In November, Scout announced the launch of a DIY security solution and product suite to target the network of 13,000 alarm dealers in the US, a market worth more than US$23 billion per year.

The new product suite combined Scout's proprietary technology platform with third-party hardware that is functionally similar to Scout's direct-to-consumer offering, allowing dealers to offer a DIY security product that provides flexibility on branding and pricing of the hardware and security services applicable to their local markets. Dealers can sell Scout's new product suite and avoid channel conflict with Scout's direct-to-consumer offering.

Scout sells both the hardware and software to dealers, offering branded merchandise or a white label product so dealers can choose their own branding for a fee.

During the year, Scout confirmed plans to launch its high definition 1080p Scout camera into the market. The camera's key features include:

- High definition 1080p video
- Two-way audio
- Built-in infrared for night vision
- Sleek, modern design
- Wireless communication with lithium ion battery power.

The camera provides consumers with verified video, making Scout the first DIY home security company to offer this feature. Consumers can opt in for this feature, which allows Scout's monitoring centre to verify an event for the police through video camera footage. A verified event, as opposed to an unverified event, results in an immediate and highly prioritised police response. It also reduces false alarms to minimise costs for customers, Scout, the Company's professional monitoring centre and local police departments. The Scout Camera also expands the Company's addressable market to target the 63% of US customers who want a network-connected camera as part of their smart home security service.

Scout launched its camera line at the end of June 2018, initially marketing it to existing Scout customers before making it available more widely as an add-on to its modular Scout Alarm system and via the Amazon store.

Recognition

Early in the year, Scout received positive trade press, with *A Secure Life* voting it "Best Designed" and a "Top 10 Overall Security System" while *SecurityGem* named it the Number 1 Best No Contract Home Security System.

During April, Scout was named the Best Overall DIY Home Security System of 2018 by leading reviews website TopTenReviews.com. In winning the award, Scout's system rated highest across categories including Security & Monitoring, Set-Up & Equipment, Add-On Equipment and Warranty & Support, with an overall rating of 9.2 points out of 10 points.

Trade Shows and Exhibitions

During the year, the Company participated in several large events to showcase its technology including:

- 2018 International Consumer Electronics Show, Las Vegas
- 2018 ISC West security trade fair and conference, Las Vegas.

Going Concern

For the year ended 30 June 2018, the Company incurred a net loss from continuing operations of AUD $3,950,539, and a net cash outflow from operating activities of AUD$5,479,482. The Company will 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.

Management believes that there are sufficient funds available to continue to meet the Company's working capital requirements as of the date of this report. The financial statements have been prepared on a going

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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 Company for the following reasons:

- Introduction of new products that are expected to generate additional hardware revenue and recurring revenue from associated services;
- A new partner deal was signed for an amount of AUD$408,000, with payment received shortly after year-end;
- The Company expects to receive AUD$162,000 from a Zego purchase order for 1000 smart home security hubs;
- The Company expects to receive a further purchase order from Zego of the same magnitude in the current quarter;
- Cash receipts from normal operations are expected to match or exceed last quarter. Cash receipts for the previous quarter were AUD$602,000;
- The Company has expressed that it has progressed discussions with lenders regarding a credit facility to support inventory ordering;
- The Company's track record of selling home security systems and related services over the past 4 years in the United States (US) market.

Scout's operating method at times depends on bulk outlays of cash for inventory, which returns to the Company in the form of hardware sales, plus margin. Because of this, cash outflows may appear high in one quarter while cash inflows from sales follows in the next quarter. As this continues, each new subscriber adds to Scout's growing total of high-margin recurring revenue.

Scout is progressing on its path to generating positive cash flow from operating activities, having kept staff and administration costs flat quarter-on-quarter throughout 2018 as the business gained scale.

CORPORATE

Share Placements

In December, Scout completed a $1.6 million oversubscribed share placement of 5,333,334 shares to sophisticated and institutional investors at $0.30 per share. The Company received overwhelming demand from new institutional investors, as well as many existing shareholders, leading it to increase its original target by accepting oversubscriptions.

Funds from the placement supported investment in Scout's hardware and expedited the inclusion of the HD camera into Scout's home security product suite.

Inventory Financing

Scout progressed discussions with lenders regarding a credit facility to support inventory ordering on a move-forward basis, hosting meetings with multiple lenders in March and April at its headquarters in Chicago. Those discussions are ongoing.

Significant changes in state of affairs

There were no significant changes in the company's state of affairs that occurred during the financial period, other than those noted above.

Environmental regulation

The Company's operations up to 30 June 2018 are not regulated by any significant environmental regulation laws.

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Dividends paid, recommended and declared

No dividends were paid or declared since the start of the period. No recommendation for payment of dividends has been made.

Indemnification and insurance of officers

The Company has paid premiums to insure each of the following current and former Directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

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

Indemnification of auditors

No indemnities have been given or insurance premiums paid, during or since the end of the period, for any person who is or has been an auditor of the Company.

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

Information Relating to Directors and Company Secretary

Daniel Roberts	Executive Director
Qualifications and Experience	B.Sc, MDes Daniel received a Bachelor of Science in Business Administration from Ohio State University, with a double major in Marketing and Logistics. Daniel also holds a Master of Design (MDes) from the Institute of Design at the Illinois Institute of Technology. His professional life spans work experience in each of these areas, having worked in sales, logistics, as a design consultant and a founder-in-residence. Prior to Scout, Daniel worked as a Founder-in-Residence at Sandbox Industries, a startup incubator in Chicago. During his time at Sandbox, Daniel was charged with overseeing every aspect of starting and running companies on behalf of Sandbox and the incubation team. His responsibilities included initial market research, concept development, financial modelling, design strategy, prototyping, pitching, project management and fundraising. It was during this time that he honed his skills for starting and scaling new ventures. Also, while at Sandbox, Daniel met David Shapiro and the two started working together professionally. Prior to graduate school, Daniel worked for MAYA design as a design consultant, working on design-related projects for Fortune 500 companies. He also spent two years as a Sales Account Executive with Total Quality Logistics, where he gained a depth of knowledge in supply chain operations.
Interest in Shares	7,943,397 Ordinary Shares 18,000,000 Performance Shares
Special Responsibilities	Chief Executive Director

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Directorships held in other listed entities during the three years prior to the current year	Nil
David Shapiro	Executive Director
Qualifications and Experience	B.Sc David received a Bachelor of Science and Arts in computer science from Miami University of Ohio. Prior to Scout, David worked at Sandbox Industries in Chicago Illinois as a lead developer. Similar to his role at Scout, David was responsible for overseeing and implementing the creation of technology stacks for the various projects he worked on during his time at Sandbox. Prior to Sandbox, David worked at JPMorgan Chase as a software engineer. His role primarily focused on application development for Private Client Services within the Asset and Wealth Management group at JPMorgan Private Bank. He also spent two years as a Sales Account Executive with Total Quality Logistics, where he gained a depth of knowledge in supply chain operations.
Interest in Shares	7,747,861 Ordinary Shares 18,000,000 Performance Shares
Special Responsibilities	Chief Technology Officer
Directorships held in other listed entities during the three years prior to the current year	Nil
John Strong	Non-executive Chairman
Qualifications and Experience	B.Sc John received his Bachelor of Political Science from the University of New Mexico. Preceding his involvement with Scout, John, worked as a prolific angel investor (VC) with a 25 company startup portfolio. One of the companies experienced a successful merger, while the remaining majority recently accomplished efficacious series A/B rounds. Prior to angel investing, John started and operated an extremely lucrative art business selling $150M USD in historic western art over a 10-year period. The experience collected from the art industry assisted him to develop the necessary skillset to cofound an accelerator in the Irvine startup scene, as social media platform for small business and entrepreneurs. Additionally, John intimately worked with founders on technology-based projects both in hardware and software with companies such as Altered Reality, Matterfab, Chec, and Particle to assist in the development process and marketing solutions. John's collective understanding in the technology space positions him to be an invaluable asset to the board of Scout moving forward with expansion post-IPO. John is currently a director of Adaptive Medias Inc., Combo Trip LLC and

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	Derma-Tec LLC (New Mexico).
Interest in Shares	4,641,277 Ordinary Shares
Interest in Options	2,000,000 Options
Special Responsibilities	Chairman
Directorships held in other listed entities during the three years prior to the current year	Nil
Anthony Brown	Non-executive Director
Qualifications and Experience	GAICD
	Anthony has been involved in the electronic security industry for over 25 years, with a career that spans all facets of the security industry, from the mechanical, physical, electronic, cyber and logical areas. Anthony currently consults to major organisations in Australia and the Asia Pacific, with prior positions held being as the company owner of a systems integration business that was sold to Schneider Electric, general manager of several successful organisations and as the regional director for critical infrastructure for Smiths Detection. During Anthony's leadership, his organisations have delivered large multi-faceted projects, won major awards for product sales and system installations within Australia and the Asia Pacific. Anthony is a high-energy leader with entrepreneurial flare, excellent communication skills and a passionate commitment to professionalism at all levels of an organisation.
Interest in Shares	1,938,189 Ordinary Shares
Interest in Options	2,000,000 Options
Special Responsibilities	Nil
Directorships held in other listed entities during the three years prior to the current year	Nil
Soloman Majteles	Non-executive Director
Qualifications and Experience	LLB (WA), FAICD
	Mr Majteles is a commercial lawyer and has been in private legal practice since 1972. He has over 40 years' experience in business, corporate, property and commercial law. Since 1983 he has been a director of a number of public listed companies operating in the mining and exploration sector (gold, base metals, coal, uranium, oil and gas) and in the biotech and technology sectors. Mr Majteles was previously a director of Australian Gaming & Entertainment Ltd, (AG&E), having been appointed as a director on 31 January 2011. In early 2014 AG&E sought to fund the purchase of a

portfolio of hotels in Sydney, New South Wales through an initial public offer of shares to raise $80 million. The IPO was unsuccessful which resulted in the directors having to place the company into voluntary administration in April 2014. The creditors of the company subsequently resolved to appoint a liquidator to the company in July 2014.

Interest in Shares	650,000 Ordinary Shares
Interest in Options	2,000,000 Options
Special Responsibilities	Nil
Directorships held in other listed entities during the three years prior to the current year	Metals Australia Ltd – Non-executive director Thred Ltd – Non-executive director

Past Directors who resigned during the year

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

COMPANY SECRETARY

Mr Stuart Usher
Qualifications: MBA, BBus, CPA, AGIA, ACIS
Mr Usher is a CPA and Chartered Company Secretary with 20 year's extensive experience in the management and corporate affairs of public listed companies. He holds a Bachelor of Business degree and an MBA from the University of Western Australia and has extensive experience across many industries focusing on Corporate & Financial Management, Strategy & Planning, Mergers & Acquisitions, and Investor Relations & Corporate Governance.

Meetings of Directors
During the financial period, 5 meetings of directors (there were no committees of directors) were held. There were also 1 circular board resolutions. Attendances by each director during the period were as follows:

	Directors meetings	
Directors	**Meetings Eligible to Attend**	**Meetings Attended**
John Strong (Appointed 22-Aug-17)	5	5
Daniel Roberts (Appointed 22-Aug-17)	5	5
David Shapiro (Appointed 22-Aug-17)	5	5
Anthony Brown (Appointed 22-Aug-17)	5	5
Sol Majteles (Appointed 22-Aug-17)	5	5
Ananda Kathiravelu (Resigned 22-Aug-17)	0	0
Michael Shaw-Taylor (Resigned 22-Aug-17)	0	0
Daniel Moore (Resigned 22-Aug-17)	0	0

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company for the year ended 30 June 2018. The information contained in this report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

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The information provided includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the financial report.

This remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes those executives in the Parent and the Group receiving the highest remuneration.

1 Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered.

The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

(i) competitiveness and reasonableness;
(ii) acceptability to shareholders;
(iii) performance linkage / alignment of executive compensation;
(iv) transparency; and
(v) capital management.

The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' and program participants' interests:
(i) focuses on sustained growth in shareholder wealth;
(ii) attracts and retains high calibre executives;
(iii) rewards capability and experience; and
(iv) provides a clear structure for earning rewards.

Remuneration Governance

Fees and payments to directors and key management personnel reflect the demands and responsibilities of the positions and are in line with the general market and the financial condition of the Company. There are no minimum or maximum amounts. There is no remuneration committee. Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which will be periodically recommended for approval by shareholders. There currently is no approved remuneration limit as per the Company's constitution and will be adopted by ordinary resolution of the shareholders at the annual general meeting. The entire board which comprises five directors are responsible for remuneration packages. The Directors believe this is satisfactory given the size and complexity of Company operations.

Use of Remuneration Consultants

Remuneration consultants were not used in the establishment of remuneration packages in 2018.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

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In accordance with best practice corporate governance, the structure of Non-executive Director and executive compensation is separate and distinct.

Non-executive Directors' Remuneration
Non-executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time. Any newly appointed Non-executive Directors will serve in accordance with a standard service contract, drafted by the Company's lawyers, which sets out remuneration arrangements. There are no termination or retirement benefits for non-executive Directors (other than for superannuation for one Australian non-executive Director). Non-executive Directors may be offered options as part of their remuneration, subject to shareholder approval.

Executive Remuneration
Senior executives, including Executive Directors, are engaged under the terms of individual employment contracts. Such contracts are based upon standard terms drafted by the Company's lawyers. Executive Directors do not receive any directors' fees in addition to their remuneration arrangements. Base salary/consulting fees are set to reflect the market salary for a position and individual of comparable responsibility and experience. Base salary/consulting fees are regularly compared with the external market and during recruitment activities generally. It is the policy of the Company to maintain a competitive salary structure to ensure continued availability of experienced and effective management and staff.

Comments and Voting at Annual General Meeting

There has been no annual general meeting of the Company as it was incorporated on 13 October 2016.

2 Details of Remuneration

The key management personnel of the Company, during the period, were:

Directors:	Position:	Date Appointed	Date Resigned
John Strong	Non-executive Chairman	22 August 2017	-
Daniel Robert	Executive Director and CEO	22 August 2017	-
David Shapiro	Executive Director and Chief Technology Officer	22 August 2017	-
Anthony Brown	Non-executive Director	22 August 2017	-
Sol Majteles	Non-executive Director	22 August 2017	-
Ananda Kathiravelu*	Non-executive Director	13 October 2016	22 August 2017
Michael Shaw-Taylor*	Non-executive Director	13 October 2016	22 August 2017
John Daniel Moore*	Non-executive director	13 October 2016	22 August 2017

*There has been no remuneration paid to any of the key management personnel in the reporting period.

3 Non-Executive Director Remuneration

The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. It is the policy of the Company to compensate Directors in share based payments through the issue of Options and cash based remuneration (subject to any necessary Shareholder and regulatory approvals).

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Service Contracts

Non-Executive Directors

The key terms of the Non-Executive Director letters of appointment are as follows:

- Term of agreement – ongoing subject to annual review.
- Directors' Fees – the issue of Options on initial appointment.
- There is no notice period stipulated to terminate the contract by either party.

Apart from their duties as Directors, some Non-Executive Directors may undertake work for the Company over and above the specific duties of a Non-Executive Director.

Executives

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

Executive Services Agreement – Daniel Roberts and David Shapiro

Scout has entered into executive employment agreements (**Executive Employment Agreements**) with Daniel Roberts and David Shapiro, dated 28 February 2017, pursuant to which the Company has engaged:

Daniel Roberts as Chief Executive Officer; and

David Shapiro as Chief Technology Officer.

The material terms and conditions of the Executive Employment Agreements are summarised below:

1) **Term:** The Executive Employment Agreements do not contain a fixed term, and will continue in force until terminated in accordance with their provisions.

2) **Remuneration:** Both Daniel Roberts and David Shapiro will be paid an annual salary of US$150,000.

3) **Incentive Programs:** Both Daniel Roberts and David Shapiro will be entitled to participate in employee incentive programs offered by the Company, at the Board's discretion. In this regard, the Company has agreed to issue each of the Executives 18,000,000 Performance Shares, 4,550,000 of which will be issued to each of the Executives as consideration for Executive's surrender to Scout for cancellation of 924,316 shares of Scout stock immediately prior to the Merger.

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4) **Termination:** Scout may at its sole discretion terminate the Employment in the following manner:

(i) by giving not less than one (1) month's written notice if at any time:

(A) the Executive is or becomes incapacitated by illness or injury of any kind which prevents the Executive from performing duties under the Executive Employment Agreements for a period of two (2) consecutive months or any periods aggregating two (2) months in any period of 12 months during the term of the Employment; or

(B) is or becomes of unsound mind or under the control of any committee or officer under any law relating to mental health for a period of two (2) consecutive month

(ii) by giving one (1) month's written notice if at any time the Executive:

(A) commits any serious or persistent breach of any of the provisions contained in the Executive Employment Agreement and the breach is not remedied within 14 days of the receipt of written notice from Scout to the Executive to do so;

(B) in the reasonable opinion of the Board, is absent in, or demonstrates incompetence with regard to the performance of the Executive's duties under this Agreement, or is neglectful of any duties under this Agreement or otherwise does not perform all duties under the Executive Employment Agreement in a satisfactory manner, provided that the Executive:

(I) has been counselled on at least three separate occasions of the specific matters complained of by the Board; and

(II) after each such occasion has been provided with a reasonable opportunity of at least a month to remedy the specific matters complained of by the Board;

(C) the Executive commits or becomes guilty of any gross misconduct; or

(D) refuses or neglects to comply with any lawful reasonable direction or order given to the Executive by Scout which the Executive, after receipt of prior notice, has failed to rectify to the reasonable satisfaction of Scout within 21 business days of receipt of that notice;

(iii) summarily without notice if at any time the Executive is convicted of any major criminal offence which brings Scout or any of its affiliates into lasting disrepute, by giving notice effective immediately and without payment of any salary other than salary accrued to the date of termination or breaches the insider trading provisions of the Executive Employment Agreement; or

(iv) without reason by giving three (3) months' written notice to the Executive and, at the end of that notice period, making a payment to the Executive equal to the Salary payable over a three (3) month period.

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

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4 Remuneration of Directors and Executives

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of Scout Security Limited are set out in the following table:

2018		Short Term Benefits		Post-Employment Benefits	Share Based Payments		
Key Management Personnel	**Salary and Fees $**	**Bonus**	**Non-Monetary $**	**Superannuation $**	**Options* $**	**Total $**	**% Performance Related**
Daniel Roberts[1]	193,462	-	-	-	-	193,462	-
David Shapiro[1]	193,462	-	-	-	-	193,462	-
John Strong	36,877	-	-	-	92,575	129,452	-
Anthony Brown	43,029	-	-	-	92,575	135,604	-
Sol Majteles	38,052	-	-	3,615	92,575	134,242	-
Ananda Kathiravelu	-	-	-	-	-	-	-
Michael Shaw-Taylor	-	-	-	-	-	-	-
John Daniel Moore	-	-	-	-	-	-	-
Total	**504,882**			**3,615**	**277,726**	**786,223**	**-**

(1) Converted from USD to AUD using an average rate for the relevant period
(2) Options issued to Directors have a 2 year vesting period.

2017		Short Term Benefits		Post-Employment Benefits	Share Based Payments		
Key Management Personnel	**Salary and Fees $**	**Bonus**	**Non-Monetary $**	**Superannuation $**	**Performance Shares & Rights $**	**Total $**	**% Performance Related**
Daniel Roberts[1]	137,636	-	-	-	-	137,636	-
David Shapiro[1]	137,636	-	-	-	-	137,636	-
Total	**275,272**	**-**	**-**	**-**	**-**	**275,272**	**-**

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

<u>Shareholdings of Key Management Personnel</u>

The number of ordinary shares of Security Limited held, directly, indirectly or beneficially, by each Director, including their personally-related entities for the year ended 30 June 2018 is as follows:

Directors	Held at 1 July 2017	Movement During Year	Change due to appointment/ (resignation)	Held at 30 June 2018
Daniel Roberts	-	-	7,943,397	7,943,397
David Shapiro	-	-	7,747,861	7,747,861
John Strong	-	-	4,641,277	4,641,277
Anthony Brown	-	300,000	1,231,754	1,531,754
Sol Majteles	-	-	650,000	650,000
Ananda Kathiravelu	62,501	-	(62,501)	-
Michael Shaw-Taylor	-	-	-	-
John Daniel Moore	-	-	-	-
Total	**62,501**	**300,000**	**22,151,788**	**22,514,289**

<u>Option Holdings of Key Management Personnel</u>

The number of options over ordinary shares in Scout Limited held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally-related entities for the year ended 30

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June 2018 is as follows:

Directors	Held at 1 July 2017	Granted as Remuneration	Conversion or Expiry of Options	Change due to appointment/ (resignation)	Held at 30 June 2018	Vested and exercisable at 30 June 2018
Daniel Roberts	-	-	-	-	-	-
David Shapiro	-	-	-	-	-	-
John Strong	-	2,000,000	-	-	2,000,000	2,000,000
Anthony Brown	-	2,000,000	-	-	2,000,000	2,000,000
Sol Majteles	-	2,000,000	-	-	2,000,000	2,000,000
Ananda Kathiravelu	-	-	-	-	-	-
Michael Shaw-Taylor	-	-	-	-	-	-
John Daniel Moore	-	-	-	-	-	-
Total	-	**6,000,000**	-	-	**6,000,000**	**6,000,000**

The options were issued to Directors on their initial appointment and are not subject to any performance achievement. The options have a two year vesting date from issue date and may not be exercised until the expiry of a two year service period ending on 22 August 2019.

Grant date	Expiry Date	Exercise Price	Number Shares Under Option	Value per option at grant date	Vesting Date
22 Aug 2017	15 Feb 2020	$0.30	6,000,000	$0.109	22 Aug 2019

<u>Performance Shares of Key Management Personnel</u>

The number of Performance Shares in Scout Security Limited held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally-related entities for the year ended 30 June 2018 is as follows:

Directors	Held at 1 July 2017	Granted as Remuneration	Conversion	Change due to appointment/ (resignation)	Held at 30 June 2018	Vested and exercisable at 30 June 2018
Daniel Roberts	-	18,000,000	-	-	18,000,000	-
David Shapiro	-	18,000,000	-	-	18,000,000	-
Total	-	**36,000,000**	-	-	**36,000,000**	-

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

(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

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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.

*************END OF AUDITED REMUNERATION REPORT*************

LIKELY DEVELOPMENTS

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

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Scout Security Ltd support and have substantially adhered to the best practice recommendations set by the ASX Corporate Governance Council. For a detailed analysis of the Company's Corporate Governance Policies, visit the corporate governance section of our website at www.scoutalarm.com .

SUBSEQUENT EVENTS

On 28 September 2018, the company entered into a binding agreement that provides access to a $500,000 working capital facility. The facility will support Scout's general operational expenditures and allow the Company to boost inventory orders, increase turnover and drive expansion in its white label connected security platform. The Company will receive AU$500,000 upfront less the loan origination fee of $9,750, with the facility having an initial term of 180 days and a minimum term of 90 days. The interest rate will be fixed at 12.25% per annum* initially, to be calculated and paid monthly. The loan will be secured by a general security deed over the assets of Scout Security Ltd.

*The Lender may elect to lower the interest rate to 7.25% per annum at their discretion during the term. In consideration for a lowered rate, Lender will receive a fee of 166,667 options (AU$.30 strike with 2 year from commencement date exercise) in each month of the term that the interest is lowered and prior to repayment. The options will be approved by shareholders at the forthcoming AGM.

AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2018 has been received and can be found on page 25.

AUDITOR

BDO Audit (WA) Pty Ltd continues in office in accordance with Section 327 of the Corporation Act 2001.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

SHARE OPTIONS

Shares under Option
As at 30 June 2018, there existed the following unlisted options.

Date Granted	Expiry Date	Exercise Price	Number Shares Under Option	Vested & Exercisable
22 August 2017	15 February 2020	$0.30	6,000,000	Nil
22 August 2017	22 February 2020	$0.25	15,000,000	15,000,000
20 December 2017	20 December 2020	$0.28	5,800,000	5,800,000

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

Performance Shares
As at 30 June 2018, there existed the following unlisted Performance Shares

Date Granted	Expiry Date	Exercise Price	Number	Vested & Exercisable
22 August 2017	22-February 2019	Nil	36,000,000	-

Refer to Remuneration Report for details of performance rights issued.

Audit Services

During the year the following fees were paid or payable for services provided by the auditors, BDO Audit (WA) Pty Ltd and Mueller & Co. LLP.

	Consolidated	
	2018	**2017**
	$	**$**
Audit Services		
BDO Audit (WA) Pty Ltd – audit and interim review	58,210	19,000
Mueller & Co. LLP – audit and interim review	131,499	68,541
	189,709	**87,541**

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.

Details of the amounts paid or payable to the auditor for non-audit services during the year are set out below. The board is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditors independence requirements of the Corporations Act 2001 for the following reasons:

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- All non-audit services have been reviewed by the board to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

	Consolidated	
	2018	**2017**
	$	**$**
Non-audit Services		
BDO Advisory (WA) Pty Ltd – Investigating Accountants Report	23,500	-
Mueller & Co LLP – Accounting and ancillary assurance services	-	22,796
	23,500	**22,796**

This report is made in accordance with a resolution of the Directors on 28 September 2018.

Dan Roberts
Director
28 September 2018

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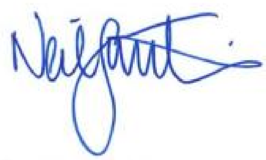
DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF SCOUT SECURITY LIMITED

As lead auditor of Scout Security Limited for the year ended 30 June 2018, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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



Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 28 September 2018

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BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation *other than for the acts or omissions of financial services licensees*

SCOUT SECURITY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED TO 30 JUNE 2018

	Note	30 June 2018 AUD $	30 June 2017 AUD $
Revenue	6	1,893,009	1,728,415
Cost of sales		(1,522,843)	(1,554,953)
Gross profit		370,166	173,462
Other income	7	622,752	453,508
Consulting & professional fees		(1,062,855)	(815,177)
Depreciation and amortisation expense		(6,552)	(6,986)
Employee expenses		(1,547,471)	(1,261,016)
Listing fee expense	20(a)	(696,000)	-
Rental costs		(76,848)	(60,853)
Share based payments	20(b)	(277,726)	-
Information technology costs		(162,499)	(108,974)
Research & development		-	(492,513)
Sales and marketing		(440,425)	(71,483)
Impairment of goodwill	10	(270,599)	-
Shipping and postage		(28,961)	(76,353)
Travel and entertainment		(86,600)	(44,172)
Other expenses		(286,921)	(112,693)
Loss before income tax expense		(3,950,539)	(2,423,250)
Income tax expense		-	-
Loss for the year		**(3,950,539)**	**(2,423,250)**
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation (net of tax)		(44,539)	95,436
Total comprehensive loss for the period net of tax		**(3,995,078)**	**(2,327,814)**
Basic and diluted loss per share (cents)	21	(4.32)	(3.46)

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

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SCOUT SECURITY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	30 June 2018 AUD $	30 June 2017 AUD $
CURRENT ASSETS			
Cash and cash equivalents	8	269,616	35,509
Inventory	9(a)	878,441	252,773
Prepayments	9(b)	687,499	-
Trade Receivables		7,996	-
Other current assets		31,724	28,700
TOTAL CURRENT ASSETS		1,875,276	316,982
NON-CURRENT ASSETS			
Plant and equipment		59,519	122,885
Goodwill	10	-	260,010
TOTAL NON-CURRENT ASSSETS		59,519	382,895
TOTAL ASSETS		1,934,795	699,877
CURRENT LIABILITIES			
Trade and other payables	11	1,507,065	3,031,543
Loans		-	84,638
TOTAL CURRENT LIABILITIES		1,507,065	3,116,181
TOTAL LIABILITIES		1,507,065	3,116,181
NET ASSETS/(DEFICIENCY)		**427,730**	**(2,416,304)**
EQUITY			
Issued capital	12	9,123,799	5,199,010
Reserves	13	2,965,221	95,437
Accumulated losses		(11,661,290)	(7,710,751)
TOTAL EQUITY/(DEFICIENCY IN EQUITY)		**427,730**	**(2,416,304)**

The Statement of Financial Position is to be read in conjunction with the accompanying notes.

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	Notes	30 June 2018 AUD $	30 June 2017 AUD $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,885,013	2,276,561
Payments to suppliers and employees		(7,367,807)	(2,855,463)
Interest received		3,312	-
Net cash used for operating activities	8(b)	(5,479,482)	(578,902)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		-	(101,113)
Net cash used in investing activities		-	(101,113)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,610,500	347,746
Share issue costs		(812,273)	-
Interest paid		-	(28,205)
Loans from related parties		-	74,762
Repayment of borrowings		(84,638)	(33,089)
Net cash provided by financing activities		5,713,589	361,214
Net increase/(decrease) in cash and cash equivalents held		234,107	(318,801)
Cash and cash equivalents at the beginning of period		35,509	355,005
Exchange rate changes on the balance of cash held in foreign currencies		-	(695)
Cash and cash equivalents at the end of period		269,616	35,509

The Statement of Cash Flows is to be read in conjunction with the accompanying notes.

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SCOUT SECURITY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Share Capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Exchange Reserve $	Total $
Balance as at 1 July 2017	5,199,010	(7,710,751)	-	95,437	(2,416,304)
Total Comprehensive Income					
Loss for the year	-	(3,950,539)	-	-	(3,950,539)
Foreign currency translation differences	-	-	-	(44,539)	(44,539)
Total comprehensive loss for the period	-	(3,950,539)	-	(44,539)	(3,995,078)
Transactions with owners in their capacity as owners:					
Issue of shares net of costs	3,924,798	-	-	-	3,924,798
Share based payments	-	-	2,914,323	-	2,914,323
Balance as at 30 June 2018	**9,123,799**	**(11,661,290)**	**2,914,323**	**50,898**	**427,730**

	Issued capital $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Exchange Reserve $	Total $
Balance as at 1 July 2016	4,847,204	(5,287,501)	-	-	(440,296)
Total Comprehensive Income					
Loss for the year	-	(2,423,250)	-		(2,423,250)
Foreign currency translation differences	-	-	-	95,436	95,436
Total comprehensive loss for the period	-	(2,423,250)	-	95,436	(2,327,814)
Transactions with owners in their capacity as owners:					
Issue of share capital net of costs	351,806	-	-	-	351,806
Balance as at 30 June 2017	**5,199,010**	**(7,710,751)**	**-**	**95,436**	**(2,416,304)**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These Company's financial statements and notes represent those of Scout Security Limited from the year ended 30 June 2018.

The financial statements were authorised for issue on 28 September 2018 by the directors of the Company.

Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Functional and presentation currency

The functional currency of the Company is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in Australian dollars, which is the entity's functional currency.

(a) Principles of Consolidation

The consolidated financial statements comprise the assets and liabilities of Scout Security Limited and its subsidiaries at 30 June 2018 and the results of all subsidiaries for the year then ended. A subsidiary is any entity controlled by Scout Security Limited. Subsidiaries are all entities (including structured 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.

The financial statements of subsidiaries are prepared from the same reporting period as the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-entity transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Investments in subsidiaries are accounted for at cost in the individual financial statements of Scout Security Limited.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period which Buddy Platform has control.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 3).

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

(b) 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 settlement of liabilities in the normal course of business.

For the year ended 30 June 2018, the Group incurred a net loss of $3,950,539 (2017:$2,423,250) and experienced net cash outflows from operations of $5,479,482 (2017: $578,902). At 30th June 2018, the consolidated entity had a cash balance of $269,616

The ability of the Group to continue as a going concern is dependent on the Group securing additional debt and equity funding, negotiating extended terms with key creditors in order to meet working capital requirements, and executing its near and medium term plans for expansion of its product portfolio in the event that sufficient revenue is not generated in the normal course of business.

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

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 Group for the following reasons:

- The Group is in advanced discussions with third parties to provide secured loan funding and additional equity investment. These funding arrangements are expected to be concluded imminently. As referred to in Note 19, on 28 September 2018 the Company entered into a $500,000 working capital facility
- Continued sales growth through the expected ability to meet forecast sales growth through announced strategic partnerships;
- Introduction of new products that are expected to generate additional hardware revenue and recurring revenue from associated services; and

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- 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. 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 consolidated 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.

(c) Capital reorganisation

On 22 August 2017 Scout Security Limited, the legal parent entity acquired 100% of the issued capital of Scout Security Inc. Scout Security Limited has been setup to effect the Australian listing of Scout Security Inc. under a capital reorganisation.

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 transaction 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.

As a result the accompanying consolidated financial statements represent the continuation of Scout Security Inc.'s financials statements. The 30 June 2018 consolidated financial statements reflect a full year of Scout Security Inc. and Scout Security Limited from the date of transaction to 30 June 2018. The comparative period financial statements reflect Scout Security Inc. only. The capital structure of the ASX listed entity (Scout Security Limited) is adopted in the financial report.

(d) 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 30 June 2018. However, the capital structure of the legal acquirer, the Company, is adopted in this financial report.

(e) New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

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.

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The Directors have reviewed all new Standards and Interpretations that have been issued but are not yet effective for the ended 30 June 2018. 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.

Any significant impact on the accounting policies of the Company from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

i. Earnings Per Share

The weighted average number of shares outstanding for the year ended 30 June 2018 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.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(g) Trade and other payables

Trade and other payables represent the liabilities at the end of the reporting period for goods and services received by the Company that remain unpaid.

Trade payables are recognised at their transaction price. Trade payables are obligations on the basis of normal credit terms.

(h) Issued Capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(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 realised or intended to be sold or consumed in the normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised 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 a 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.

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(j) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(k) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(l) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(m) Financial Investments

Recognition

Financial investments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit and loss.

(n) 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 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 of 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.

(o) Trade & other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(p) 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.

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(q) *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.

(r) 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.

(s) 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.

(t) Prepayments

Prepaid expenses primarily relate to prepaid inventory orders.

(u) Property, Plant 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.

(v) Share-Based Payments

The Group has provided payment to service providers and related parties in the form of share-based compensation whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an appropriate valuation model for services provided by employees or where the fair value of the goods or services received cannot be reliably estimated.

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For goods and services received where the fair value can be determined reliably the goods and services and the corresponding increase in equity are measured at that fair value. The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each balance date, the entity revises its estimates of the number of options with non-market vesting conditions that are expected to become exercisable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant parties become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

NOTE 2: ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT OPERATIVE AT 30 JUNE 2018

(a) Adoption of New and Revised Accounting Standards

A number of new standards, amendments to standards and interpretations issued by the AASB which are not yet mandatorily applicable to the Company have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Group does not plan to adopt these standards early.

The following AASBs are most relevant to the Group:

AASB 16: Leases (applicable to annual reporting periods commencing on or after 1 January 2019).
AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of a low value are exempt from the lease accounting requirements. Lessor accounting remains similar to current practice.

The Group does have operating leases. AASB 16 is expected not to have a material impact on the Group's financial report. The Group is currently assessing the impact of this standard.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value

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through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income (OCI).

For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' (ECL) model to recognise an allowance.

Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures.

The Company's financial instruments consist of cash, debtors, investments other debtors and payable as disclosed in Note 9 (Financial Instruments). This standard is not expected to have a material impact on the financial report in the 2018 financial period.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue.

For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

This standard may to have an impact on the Company's revenue recognition policies. The Company is currently assessing the impact of this standard.

During the period, the Company adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory. The adoption of these standards has not significantly impacted the recognition, measurement and disclosure of the transactions of the Company for the financial period ended 30 June 2018.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The acquisition of 100% of the issued capital of Scout Security Inc. by the Company, by way of issuing the shareholders of Scout Security Inc. fully paid shares in the Company, has been determined by management to be a capital reorganization as the transaction does not meet the definition of a business. Capital reorganization transactions are a complex area because there is no specific applicable accounting standards to these types of transactions. In the absence of specific guidance, management has used guidance in AASB 108 'Accounting Policies, Change in Accounting Estimates and Errors' (para 10) whereby management have used its judgement in developing and applying a relevant and reliable accounting policy using pre-combination book values to account for this transaction as no substantive economic change has occurred. Refer to Note 1(c) for additional information.

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 20.

The Company issued performance shares during the year ended 30 June 2018 based upon the conditions set out in Note 20. The Company follows the guidelines of AASB 2 'Share Based Payments' and takes into account non-market vesting conditions and estimates the probability and expected timing of achieving the performance conditions. The Group has not recognised any cost associated with the issue of the performance shares as there remains significant uncertainty as to whether the performance milestones will be met and the performance shares will convert to ordinary shares. For full details of the terms of the performance shares see note 20.

c) Impairment of Goodwill

The Group tests annually whether goodwill may have suffered any impairment, in accordance with the accounting policy stated in Note 1. Determining whether goodwill is impaired requires an estimation of the recoverable amount. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate net present value. The carrying amount of goodwill at 30 June 2018 is $nil (30 June 2017: $260,010) after an impairment loss of $270,599 was recognized during the financial year. Details of the impairment loss calculation are provided in Note 10 of the financial statements.

d) Reversal of prior year liability

Included in other income for the year ended 30 June 2018 is an amount of $619,440 (USD $ 480,279) relating to the reversal of a liability incurred in 2015/16 for the purchase of inventory units which were sold. The inventory acquired was defective and the units sold were subsequently replaced at the company's expense. As a result management has determined the remaining liability is not due and payable.

e) Performance shares

36,000,000 performance shares were issued to executives during the year which will vest upon achieving certain milestones. The likelihood of achieving these milestones was assessed to be nil probability at 30 June 2018 as a result no share-based payment expense has been recognized. This assessment will be required to be carried out at each reporting period. Should the milestones vest or the probability of achievement be very likely, then a share-based payment expense will be recognized if the executives are still employed with the Company at that time.

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NOTE 4: 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 5: 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 6: REVENUE

	Consolidated	
	2018	2017
	$	$
Product sales	1,084,365	1,034,897
Subscription revenues	808,644	693,518
Total Revenue	**1,893,009**	**1,728,415**

NOTE 7: OTHER INCOME

	Consolidated	
	2018	2017
	$	$
Interest	3,312	-
Trade creditors written off (refer Note 3(d))	619,440	-
IPO Incentive deposit	-	453,508
Total Other Income	**622,752**	**453,508**

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NOTE 8: CASH AND CASH EQUIVALENTS

(a) Reconciliation to cash at the end of the period

	Consolidated 2018 $	2017 $
Reconciliation to Statement of Financial Position		
Cash at bank	269,616	35,509
Total Cash and Cash Equivalents	**269,616**	**35,509**

(b) Reconciliation of net loss after income tax to net cash flows used in operating activities

	2018 $	2017 $
Profit/(Loss) after income tax for the year	(3,950,539)	(2,423,250)
Adjustments for:		
Depreciation and amortisation	65,175	135,629
Share-based payments	277,726	-
Foreign exchange difference	10,222	10,045
Listing expense	696,000	-
Impairment of goodwill	270,599	-
Net loss after income tax		
Changes in assets and liabilities:		
(Increase)/Decrease in inventory	(625,668)	(226,197)
(Increase)/Decrease in prepayments and other assets	(698,519)	305,220
Increase/(Decrease) in trade and other creditors	(1,524,478)	1,619,651
Net cash flows used in operating activities	**(5,479,482)**	**(578,902)**

NOTE 9: INVENTORIES

	2018 $	2017 $
Current assets		
(a) Finished goods – at cost	878,441	252,773
Total Inventory	**878,441**	**252,773**
Current assets		
(b) Prepayments – Inventory Orders	687,499	-
Total Prepayments – Inventory Orders	**687,499**	**-**

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NOTE 10: GOODWILL

	Consolidated	
	2018	2017
	$	$
Opening balance	260,010	269,640
Movement in foreign currency	10,589	(9,630)
Impairment	(270,599)	-
Total	**-**	**260,010**

The goodwill asset was created when Scout Security Inc. was purchased from Sandbox Industries in 2013, with the goodwill being the difference between the purchase consideration and the fair value of identifiable net assets.

Management have undertaken an impairment assessment of its goodwill in accordance with *AASB 136 Impairment of Assets.* The key assumptions for the value in use calculations are those regarding discount rates, growth rates, terminal value, expected revenue to be generated through new sales agreements and direct costs expected to be incurred during the forecast period.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the asset. The growth rates are based on expectations of future revenue contracts entered into and industry growth forecasts. Direct costs are based on past practices and expectations of future changes in the market.

The Directors are confident in relation to the longer term outlook for the business however, given the business is in its early stages of growth, the current losses incurred by the business, and the uncertainty of future results as the business matures, the Directors considered it appropriate to impair the goodwill as at 30 June 2018.

It is the Directors' view that the accounting impairment does not impact the ongoing operations of the business.

NOTE 11: TRADE AND OTHER PAYABLES

	Consolidated	
	2018	2017
	$	$
Trade payables (1)	1,025,554	1,231,941
Sundry payables and accrued expenses(2)	481,511	1,799,602
Total Trade and Other Payables	**1,507,065**	**3,031,543**

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

NOTE 12: ISSUED CAPITAL & RESERVES

(a) Movements in Shares

	#	$
	Ordinary Shares	
Issued and Paid Up Capital		
Fully paid ordinary shares	**108,123,685**	**9,123,799**

(b) Movements in fully paid shares on issue 30 June 2018

Opening balance[1]	**9,903,408**	**5,199,010**
Less: adjustment for continuation accounting[1]	(9,903,408)	-
Issue of shares to Scout Security Inc.[2]	69,900,000	-
Issued capital of Scout Security Limited at date of capital reorganisation	6,875,000	-
Issue of shares in relation to capital raising via public offer	25,052,500	5,010,500
Issue of shares via public placement	5,333,334	1,600,000
Issue of shares to advisors for capital raising services	962,850	192,570
Less: Capital Raising Costs	-	(2,878,281)
Balance as at 30 June 2018	**108,123,685**	**9,123,799**

[1] the application of continuation accounting for the acquisition required the value of Scout Security Inc. shares on issue and issued capital balance as at 30 June 2017 as a comparative.
[2] The Company issued 69,900,000 fully paid ordinary shares to Scout Security Inc shareholders for 100% shares outstanding in Scout Security Limited.

Movements in fully paid shares on issue 30 June 2017	**#**	**$**
Opening balance on incorporation	9,453,290	4,847,204
Issue of shares	450,118	351,806
Balance as at 30 June 2017	**9,903,408**	**5,199,010**

(c) Movements in share based payments reserve:	**2018**	**2017**
	$	**$**
Opening Balance at the start of the period:	-	-
Expensed		
Issue of 15,000,000 broker options	696,000	-
Issue of 6,000,000 director options	277,726	-
Total expense recognised in profit or loss	973,726	-
Costs of capital		
Issue of 15,000,000 broker options	1,044,000	-
Issue of 5,800,000 options	896,597	-
Total expense recognised in equity	**1,940,597**	**-**
Balance at the end of the reporting period:	**2,914,323**	**-**

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NOTE 13: RESERVES

	Consolidated 2018 $	2017 $
Foreign exchange	50,898	95,437
Share based payments	2,914,323	-
Total	**2,965,221**	**95,437**

Share based payments reserve is used to recognise:

1) The grant date fair value of options issued to employees but not exercised
2) The grant date fair value of shares issued to employees

The following securities were issued as share based payments during the year.

2018	Value per share/option	Number	Value $
Broker options	$0.116	15,000,000	1,740,000
Director options	$0.109	6,000,000	277,726
Broker Options	$0.1546	5,800,000	896,597
			2,914,323

Foreign currency reserve includes exchange differences arising on translation of the foreign controlled entity.

NOTE 14: FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of deposits with banks and accounts receivable and payable. The Company's activities expose it to a variety of financial risks; market risk (including fair value and interest rate risk), credit risk, liquidity risk, foreign exchange fluctuations, cash flow and interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Risk management is carried out by the board of directors under policies approved by the Board. The board identifies and evaluates financial risks for overall risk management.

Interest Rate Risk

As the Company has no significant interest-bearing assets other than cash at bank, the Company's income and operating cash flows are not materially exposed to changes in market interest rates.

The risk arises due to changes in interest rates offered by the bank. The risk is managed by seeking alternative quotes from competing banks.

2018 Financial Instruments	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Total $	Weighted average effective interest rate %
Financial assets					
Cash assets	269,616	-	-	269,616	0.5%
Trade and other receivables	-	-	7,996	7,996	
Total financial assets	**269,616**	**-**	**7,996**	**277,612**	

2017 Financial Instruments	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Total $	Weighted average effective interest rate %
Financial assets					
Cash assets	35,509	-	-	35,509	0.6%
Trade and other receivables	-	-	-	-	
Total financial assets	**35,509**	**-**	**-**	**35,509**	

The net fair value of financial assets and liabilities are materially in line with their carrying values.

Sensitivity Analysis – Interest Rate Risk

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk at the reporting date. This sensitivity analysis demonstrates the effect on the current period results and equity which could result in a change in interest rates.

		Increase 1%		Decrease 1%	
30 June 2018	**Carrying Amount $**	**Profit $**	**Equity $**	**Profit $**	**Equity $**
Cash and cash equivalents		2,696	-	(2,696)	-

		Increase 1%		Decrease 1%	
30 June 2017	**Carrying Amount $**	**Profit $**	**Equity $**	**Profit $**	**Equity $**
Cash and cash equivalents		355	-	(355)	-

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Company has no long term or short term debt and its risk with regard to liquidity relates to its ability to maintain its current operations prior to the generation of future income streams. The Company's ability to raise equity funding in the market is paramount in this regard. The Company manages liquidity by ensuring that it has at least sufficient cash to meet its budgeted commitments for at least 12 months.

As at 30 June 2018	Less than 6 months $	6-12 months $	1-5 years $	Over 5 years $	Total contractual $	Carrying amount $
Trade and other payables	1,507,065	-	-	-	1,507,065	1,507,065

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As at 30 June 2017	Less than 6 months $	6-12 months $	1-5 years $	Over 5 years $	Total contractual $	Carrying amount $
Trade and other payables	3,031,543	-	-	-	3,031,543	3,031,543

Credit Risk

The Company has no significant concentrations of credit risk. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings.

Cash at bank	**2018**	**2017 $**
Westpac Banking Corporation – AA	187,734	-
US- Oak Bank – Not available	81,882	35,509

Price Risk

The Company is not exposed to commodity price risk.

Foreign Currency Risk

As a result of significant operations in the United States, the Group's statement of financial position can be affected significantly by movements in the USD$/AUD$ exchange rates. As at the end of the reporting period the Group's exposure to foreign currency risk is considered immaterial by the Company and therefore no sensitivity analysis has been disclosed.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Fair Value Measurement

(a) Net fair value

The fair values of all financial assets and liabilities of the Group approximate their carrying values.

The methods and valuation techniques used for the purpose of measuring fair value of the company's financial assets are unchanged compared to the previous reporting period.

(b) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

i) Quoted prices in active markets for identical assets or liabilities (level 1)
ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (level 2); and
iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Due to their short term nature, the carrying amount of the financial assets and liabilities at balance date is assumed to approximate their fair value.

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NOTE 15: INCOME TAX EXPENSE

		2018 $	2017 $
a.	**The components of tax expense comprise:**		
	Current tax	-	-
	Deferred tax	-	-
		-	-
b.	**The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to income tax as follows:**		
	Operating loss before income tax	(3,950,538)	(2,423,250)
	Income tax benefit calculated at 27.5%	(1,086,398)	(676,087)
	Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
	Non-deductible expenditure/(non-assessable income)	389,674	5,301
	Difference in overseas tax rate	(9,767)	(300,483)
	Effect of unused tax losses/temporary differences not recognised as deferred tax assets	706,492	971,269
	Income tax	-	-
c.	**Unrecognised deferred tax assets:**		
	Carry forward revenue losses (Australia)	20,844	208,706
	Carry forward revenue losses (Foreign)	2,381,275	2,683,388
	Deductible temporary differences	6,331	
	US valuation allowance	(2,381,275)	(2,683,388)
	Net unrecognised deferred tax	**27,174**	-

The tax benefits of the above deferred tax assets will only be obtained if:

(a) the company derives future assessable income of a nature and amount sufficient to enable the benefits to be utilised;
(b) the company continues to comply with the conditions for deductibility imposed by law; and
(c) no changes in income tax legislation which adversely affect utilising benefits.

NOTE 16: REMUNERATION OF AUDITORS

Assurance Services	2018	2017
Audit Services	$	$
Amounts paid/payable to BDO Audit (WA) Pty Ltd (BDO) for audit and review of the financial reports	58,210	19,000
Amounts paid/payable to Mueller & Co. LLP (Mueller) for audit and review of the financial reports	131,499	68,540
	189,709	87,540
Non-Audit Services		
Amounts paid/payable to BDO Advisory (WA) Pty Ltd (BDO) for work on the Investigating Accountants Report	23,500	-
Amounts paid/payable to Mueller & Co. LLP (Mueller) for accounting and ancillary assurance services	-	22,796
	23,500	22,796

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NOTE 15: INTERESTS IN CONTROLLED ENTITIES

The Company has the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Class of Shares	Percentage held 2018	Percentage held 2017
Scout Security Inc	USA	Ordinary	100%	100%

NOTE 17: RELATED PARTY TRANSACTIONS

a) Parent and Ultimate Controlling Party

The parent entity and ultimate controlling party is Scout Security Limited.

b) Related Party Compensation

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

Compensation of key management personnel of the Group

	2018 $	2017 $
Short-term employee benefits	504,882	275,272
Post-employment benefits	3,615	-
Share-based payments	277,726	-
Total compensation paid to key management personnel	**786,223**	**275,272**

The amounts disclosed in the table are the amounts recognised as an expense during the period related to key management personnel.

c) Shares and Options held by Directors and Key Management Personnel

Information on remuneration and shares and options held by Directors and Key Management Personnel is contained in the Remuneration Report within the Directors' Report.

NOTE 18: CONTINGENT LIABILITIES

Contingent liabilities:
As referred to in Note 3(b), management reversed a liability incurred in the 2015/16 year relating to a purchase of defective goods. The existence of any possible obligation remaining will only be confirmed should the matter proceed to legal arbitration in the USA.
Other than as stated above, the Company had no contingent liabilities as at 30 June 2018.

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NOTE 19: EVENTS SUBSEQUENT TO REPORTING DATE

On 28 September 2018, the company entered into a binding agreement that provides access to a $500,000 working capital facility. The facility will support Scout's general operational expenditures and allow the Company to boost inventory orders, increase turnover and drive expansion in its white label connected security platform. The Company will receive AU$500,000 upfront less the loan origination fee of $9,750, with the facility having an initial term of 180 days and a minimum term of 90 days. The interest rate will be fixed at 12.25% per annum* initially, to be calculated and paid monthly. The loan will be secured by a general security deed over the assets of Scout Security Ltd.

*The Lender may elect to lower the interest rate to 7.25% per annum at their discretion during the term. In consideration for a lowered rate, Lender will receive a fee of 166,667 options (AU$.30 strike with 2 year from commencement date exercise) in each month of the term that the interest is lowered and prior to repayment. The options will be approved by shareholders at the forthcoming AGM.

Other than as stated above, there have been no other matters or circumstances, which have arisen since 30 June 2018 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2018, of the Company, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 30 June 2018, of the Company.

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NOTE 20: PERFORMANCE SHARES AND OPTIONS

Performance Shares

During the year ended 30 June 2018, the following performance shares were issued:

- 36,000,000 Performance Shares issued on 22 August 2017 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.

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Options

During the year ended 30 June 2018, 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
Vesting	22 Feb 2019

- 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	$0.1546

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Share Based Payments Expense

Share based payments expense at 30 June 2018 is comprised as follows:

	30 June 2018 $	30 June 2017 $
(a) Share Based Payment expense		
Issue of 15,000,000 broker options[1]	696,000	-
(b) Director fees		
Issue of 6,000,000 director options[2]	277,726	-
Total expense recognised in profit or loss	973,726	-
Cost of capital		
Issue of 15,000,000 broker options[1]	1,044,000	-
Issue of 962,850 broker shares (Note 10)	192,570	-
Issue of 5,800,000 options	896,000	-
Total expense recognised in equity	2,132,570	-
Total share based payments expense	**3,106,296**	**-**

[1]Relates to the 15,000,000 capital raising options issued on 22 August 2017 of which value was allocated between capital raising cost and share-based payment expense relating to listing.

[2] The options were issued to Directors on their initial appointment and are not subject to any performance achievement. The options have a two year vesting date from issue date and may not be exercised until the expiry of a two year service period ending on 22 August 2019.

NOTE 21: LOSS PER SHARE

Reconciliation of loss from continuing operations:	2018 $	2017 $
Loss from continuing operations	(3,950,539)	(2,423,250)
Weighted average number of ordinary shares outstanding during the period	91,315,757	69,900,000
Loss per share (cents)	(4.32)	(3.46)

There are currently no dilutive securities on issue and therefore the weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS are the same.

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NOTE 22: CHANGES TO UNAUDITED PRELIMINARY FINANCIAL REPORT

On 31 August 2018 the consolidated entity released its unaudited preliminary financial report for the year ended 30 June 2018. Upon finalisation of the audit and management's goodwill impairment assessment, and impairment charge of $270,599 was recognised. Share-based payments expense was reduced by $376,274 to reflect vesting conditions for director options issued during the year. Net Assets decreased by $270,599 and the loss attributable to the consolidated entity for the year decreased by $105,675.

In accordance with a resolution of the directors of Scout Security Limited, the directors of the Company declare that:

1. the financial statements and notes, as set out on pages 26 to 53, are in accordance with the *Corporations Act 2001* and:

    a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
    b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the period ended on that date of the Company; and

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; and

3. the directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

This declaration is made in accordance with a resolution of the Directors on 28 September 2018 and is signed on behalf of the Directors by:

Dan Roberts
Director
28 September 2018

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INDEPENDENT AUDITOR'S REPORT

To the members of Scout Security Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Scout Security Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We 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 report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1(b) 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 opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for Share Based Payments

Key audit matter	*How the matter was addressed in our audit*
During the financial year ended 30 June 2018, the Group issued equity instruments, in the form of options and performance shares, to eligible directors and brokers as detailed in Note 20. The Group performed valuations of the options and recorded the related share-based payment expense or share capital costs in accordance with the relevant accounting standard. Due to the judgemental estimates used in determining the value of the options and the probability of achievement of the performance shares milestones, we consider the accounting for the share-based payments to be a key audit matter.	Our audit procedures in respect of this area included but were not limited to the following: • Reviewing relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements; • Involving our valuation specialists to assess the assumptions and inputs used in the valuation; • Assessing management's determination of achieving non-market vesting conditions of the performance shares issued; • Assessing the allocation of the share-based payment expense over management's expected vesting period; and • Assessing the adequacy of the disclosure in the financial report (refer Note 3(b) and Note 20).

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Accounting for capital reorganisation

Key audit matter	*How the matter was addressed in our audit*
On 22 August 2017 Scout Security Limited acquired 100% of the issued capital of Scout Security Inc. by issuing the shareholders of Scout Security Inc. fully paid ordinary shares in Scout Security Limited. Scout Security Limited has been set up to effect the Australian listing of Scout Security Inc. under a capital reorganisation. Capital reorganisation transactions are a complex accounting area because there is limited guidance in Australian accounting standards relating to these types of transactions. There is a risk that the financial statements are not presented and disclosed in accordance with the accounting policy adopted for capital reorganisation by the group. Refer to Note 3(a) of the financial report for a description of the accounting policy and judgements applied to this transaction.	Our procedures included, but were not limited to: • Obtaining an understanding of the relevant agreements in line with management's assessment of the transaction and the accounting policies adopted to reflect the capital reorganisation; • Evaluating the appropriateness of the use of the continuation accounting as it was applied to this transaction; and • We also considered the adequacy of the Group's disclosures in respect of the accounting for this capital reorganisation in Note 1(c), Note 3(a) and Note 4 in the financial statements

Impairment of goodwill

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 10, an impairment charge amounting to $270,599 related to the Group's goodwill has been recognised as at 30 June 2018. Given the quantum of this impairment and the judgement exercised by the Group in determining the recoverable amount of the asset and calculating the impairment charge, we consider this area to be significant for our audit.	Our procedures included, but were not limited to: • Evaluating the cash flow forecasts by considering the reliability of the Group's historical cash flow forecasts, our knowledge of the business and corroborating our work with external information where possible; • Evaluating the Group's assumptions and estimates used to determine the recoverable amount of the asset, including growth rate and discount rate; and • Assessing the adequacy of the Group's disclosure in Note 1(q), Notes 3(c) and Note 10 to the financial report.

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Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 22 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Scout Security Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

BDO

Neil Smith

Director

Perth, 28 September 2018

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ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

SHAREHOLDINGS

The issued capital of the Company at 17 September 2018 is ordinary fully paid shares. All ordinary shares carry one vote per share.

QUOTED SECURITIES

ORDINARY FULLY PAID SHARES AS AT 17 SEPTEMBER 2018

TOP 20 SHAREHOLDERS

		No. of Shares Held	% Held
1	DANIEL B ROBERTS	7,943,397	7.33
2	DAVID SHAPIRO	7,747,861	7.15
3	ALEXANDER GERKO	6,023,997	5.56
4	JOHN B STRONG	4,641,277	4.28
5	CITICORP NOMINEES PTY LIMITED	3,524,101	3.25
6	AMAZON.COM NV INVESTMENT HOLDINGS LLC	2,731,592	2.02
7	CELTIC CAPITAL PTY LTD <THE CELTIC CAPITAL A/C>	2,192,308	2.68
8	JARVISBROWN SUPER PTY LTD <JARVIS BROWN SF A/C>	1,938,189	1.79
9	LIBERTINE INVESTMENTS PTY LTD	1,838,000	1.70
10	DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/FUND>	1,750,000	1.61
11	PLUG & PLAY VENTURE COMPANY LLC	1,604,203	1.48
12	GRAVITY TANK, INC.	1,581,684	1.46
13	KINGSLANE PTY LTD <CRANSTON SUPER PENSION A/C>	1,525,000	1.41
14	FARRIS CORPORATION PTY LTD <THE PETER FARRIS SUPER A/C>	1,500,000	1.38
15	MORRIS ALAN LEVITZKE	1,500,000	1.38
16	JIMMY KWONG	1,346,752	1.24
17	CHAD SMITH	1,324,944	1.22
18	JAMES MATTOX	1,247,705	1.15
19	BARK (NSW) PTY LTD <BARK A/C>	1,156,000	1.07
20	ROBERT JESSE HUNT	1,125,000	1.04
		54,242,010	**50.05**

DISTRIBUTION OF SHAREHOLDINGS	No. of Holders	No. of Shares
1 – 1,000	22	1,747
1,001 – 5,000	114	357,574
5,001 – 10,000	95	826,407
10,001 – 100,000	289	11,697,940
100,001 and over	148	95,490,017
	668	**108,373,685**

Number holding less than a marketable parcel is 13

Shareholders by Location	No. of Holders	No. of Shares
Australian holders	608	62,206,198
Overseas holders	60	46,167,487
	668	**108,373,685**

ESCROW SHARES

As at the date of this report the following shares are held in escrow in accordance with ASX requirements of Reinstatement on the ASX on 25 August 2017.

Escrow period	Securities in escrow
Until 25-Aug2019	22,970,529 Shares

VOTING RIGHTS

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

•

SUBSTANTIAL SHAREHOLDERS AS AT 17 SEPTEMBER 2018

DANIEL B ROBERTS	7,943,397
DAVID SHAPIRO	7,747,861
ALEXANDER GERKO	6,023,997

UNQUOTED SECURITIES

OPTIONS

The Company has the following classes of options on issue at 17 September 2018 as detailed below. Options do not carry any rights to vote.

Class		Terms		No. of Options
1. Unquoted		Exercisable at 30c expiring 22-Aug-2019		21,000,000
	Name	**Options**	**%**	
	Armada Capital & Equities	3,200,000	15.24	
	Zenix Nominees Pty Ltd	3,000,000	14.29	
	Escrow period	**Securities in escrow**		
	22-Aug-2019	21,000,000		
2. Unquoted	Performance Shares	no voting rights attached, conversion to shares on achievement of performance milestones		36,000,000
	Name	**Options**	**%**	
	Dan Roberts	18,000,000	50	
	David Shapiro	18,000,000	50	
	Escrow period	**Securities in escrow**		
	22-Aug-2019	36,000,000		

Scout Security has used the cash and assets in a form readily converted to cash that it had at the time of admission in a way consistent with its objectives. ASXLR4.10.19

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