

28 April 2020

Q1/2020 – Quarterly Activity Report

- SMX has delivered strong operational progress during the quarter and has seen **a significant increase in demand for its technology due to new transparency regulations** as a result of COVID-19
- SMX delivers revenues of \$125,000 for the quarter, representing more than 30-fold increase on Q1 2019
- In a landmark achievement, **SMX raises a total of \$6.42 million**, before costs, at \$0.34 per share from institutional and sophisticated investors. SMX also issued a 1 for 3 attaching option with a three-year expiry, exercisable at \$0.60
- **Circular economy and sustainability**; SMX signs a binding joint development agreement with world leading chemical producer BASF to solve global plastic waste issues
 - SMX will also commence a global marketing campaign for its solution
- **Gold sector**; SMX signed an MoU with The Perth Mint to create the world's first mine-to-product transparency solution for gold
- **Wine Sector**; SMX establish a joint venture company; SMX-Beverages, focused on the significant global alcohol counterfeit market

Haggai Alon, Founder and CEO, commenting on SMX's long term strategy:

“Global business and commerce are rapidly changing, and companies understand that in the near future they will not only be **judged on their ability to generate sales and revenues but also on their ability to remain relevant and innovative on circular economy and sustainability. The world is moving from a linear economy of using and selling virgin materials into a circular economy, where far more emphasis is being put on effectively recycling and reusing existing materials.** This is happening across many sectors and SMX is becoming dominate player here.”

Security Matters Limited (ASX: SMX) (Security Matters or the Company), a company focused on digitising physical objects on the blockchain to enable a circular and closed loop economy has today published its Appendix 4C for the three months ended 31 March 2020 and provides an overview of its operational highlights.

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Corporate and operational update

In light of the recent COVID-19 outbreak, the Company has taken measures to significantly reduce overhead costs and streamline operations to ensure it can continue to operate effectively and efficiently.

Additionally, the Company has been active in leveraging its vast network to promote its technology in light of the implementation of stricter regulations surrounding production and supply chain transparency. SMX has seen a considerable increase in inbound enquiries and demand for its technology from a large number of companies worldwide seeking an effective and easy to integrate solution to ensure they safeguard against biological threats going forward.

Financial highlights

In a milestone achievement, SMX successfully completed an oversubscribed placement to institutional and sophisticated shareholders, raising \$5 million before costs. The placement issued 14,700,000 fully paid ordinary shares at \$0.34 per share. The Company also issued a 1 for 3 attaching option with a three-year expiry, exercisable at \$0.60.

Shortly after, SMX also successfully completed a follow-on \$1.42 million placement before costs to institutional investors as a result of additional strong interest received from investors during the first placement.

The follow-on placement issued 4,173,764 fully paid ordinary shares and was completed on the same terms.

SMX raised a total of \$6.42 million before costs.

Commercial Operations

SMX signs joint development agreement with world leading chemicals producer, BASF

Achim Sties, Senior Vice President, Performance Chemicals Europe, BASF SE said: “To tackle the global challenge, we have to rethink plastic applications with their end of life in mind. It is essential to progress towards a circular economy approach that closes the loop on end-of-life resources and allows us to recover and recycle plastics as efficiently as possible,”

“We are jointly developing this game-changing technology that could capture information of the polymer and how the plastic moves through the entire production and distribution process. We will be able to devise an appropriate additive package for our customers and other players in the value chain using recycled material to capture more material value and increase resource productivity.”

MoU signed with The Perth Mint to create world’s first mine-to-product transparency solution

The Company progress developments with The Perth Mint with the signing of a MoU (Memorandum of Understanding) to commence the initiative, focused on the development of the world’s first mine-to-marketplace ethical gold supply chain assurance solution.

Following the relevant regulatory approval, the initiative will lead to the formation of *trueGold* where **SMX** and The Perth Mint will commence the development of a high-tech proprietary supply chain solution utilising **SMX**'s disruptive technology and all relevant industry players will be invited to participate.

The formation of *trueGold* follows the completion of a two-year collaboration project with The Perth Mint and full launch of the solution is expected in Q1 2021.

SMX develops tech solution to address the Multi bn per annum alcohol counterfeit market

During the quarter, **SMX** announced the incorporation of Security Matters Beverages ("SMX-B"), a joint venture company focussed on completing the development of **SMX**'s patented wine anti-counterfeiting and adulteration system and commercialising its application. **SMX-B** is 50% owned by Security Matters and 50% owned by a company owned by former Macquarie banker Mr Peter Yates AM and Mr Leon Kempler AM.

The technology addresses the Multi bn per annum alcohol counterfeiting market and comprises an invisible, liquid-based barcode system, a proprietary reader and a blockchain record to protect data ownership.

Outlook

The first quarter of 2020 has presented a number of unprecedented challenges for global economies, in light of this, **SMX** continues to work tirelessly with its partners to continue its projects and deliver results.

SMX anticipates the upcoming quarters to be transformational for the Company's development as it nears the end of many ongoing solution development projects.

--Ends--

By order of the Chief Executive Officer.

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About Security Matters Limited

Security Matters has commenced the commercialisation of its unique, patented technology that uses a hidden chemical-based 'barcode' to permanently and irrevocably 'mark' any object, be it solid, liquid or gas. The barcode is read using the company's unique 'reader' to access the corresponding stored data, recorded and protected using blockchain technology.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Security Matters Limited

ABN

78 626 192 998

Quarter ended ("current quarter")

31 March, 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	125	125
1.2 Payments for		
(a) research and development	-84	-84
(b) product manufacturing and operating costs	-5	-5
(c) advertising and marketing	-109	-109
(d) leased assets	-13	-13
(e) staff costs	-488	-488
(f) administration and corporate costs	-504	-504
1.3 Dividends received (see note 3)		
1.4 Interest received	0	0
1.5 Interest and other costs of finance paid	-6	-6
1.6 Income taxes paid	0	0
1.7 Government grants and tax incentives	0	0
1.8 Other - GST and VAT return	86	86
1.9 Net cash from / (used in) operating activities	-998	-998
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	-57	-57
(d) investments		
(e) intellectual property	-57	-57
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	-114	-114

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	4,081	4,081
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings	-133	-133
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	3,948	3,948

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,708	1,708
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-998	-998
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-114	-114

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Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,948	3,948
4.5	Effect of movement in exchange rates on cash held	-158	-158
4.6	Cash and cash equivalents at end of period	4,386	4,386

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,386	1,708
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,386	1,708

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

-54

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Payments to directors- US\$34,000.

Payments for services by Kibbutz Ketura (substantial shareholder) all at cost price: bookkeeping services, leased cars, rent, office costs- US\$20,000.

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7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	393	393
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	393	393

7.5 **Unused financing facilities available at quarter end** 0

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Shareholder loan from Ketura and Degania (substantial shareholders of SMX) for ILS 1,400,000 (USD 393K at quarter end).

Terms of loan:

- 1) Annual interest rate of 4%.
- 2) Loan repayment in quarterly instalments of ILS 250,000 (~US\$ 70K)

The loan is described in more detail in the prospectus in section 10.16 and in a pre-quotation disclosure dated 11 October 2018.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	-998
8.2 Cash and cash equivalents at quarter end (Item 4.6)	4,386
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	4,386
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	4.4

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 April 2020

Authorised by: Chief Executive Officer

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.