

31 July 2020

Q2/2020 – Quarterly Activity Report

- Driven by its long-term vision and staying focused on its key strategic market segments, SMX will continue to work towards accelerating the speed of adoption and commercialisation of its technology.
- With more global companies seeking to meet their ESG responsibilities as well as transition successfully to a closed looped circular economy, SMX is adequately resourced and well placed to scale its technology to meet the demands of these global companies.
- Record income received from clients totalling US\$135,000 up 8% on the prior quarter
- 27% reduction in staff costs due to cost reduction initiatives implemented
- COVID-19 creates increasing demand for supply chain and accountability assurance technology creating a number of unique opportunities for SMX
- Joint Venture agreement signed with BASF to develop solutions for plastic traceability and circularity
- SMX becomes a member of the World Business Council for Sustainable Development fast tracking extended adoption of its technology amongst corporations focusing on sustainability
- The formation of trueGold Consortium completed, launching what it believes to be the world's first mine-to-market gold supply chain assurance solution

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 30 June 2020 and provides an overview of its operational highlights.

Financial highlights

SMX delivered receipts from customers of US\$135,000 representing an 8% increase on the March quarter and up 513% on Q2 2019.

The Company also implemented cost reduction initiatives to prepare for any economic uncertainty around COVID-19. As a result, SMX decreased its staff costs by 27% to \$354,000, providing SMX with an extended financial runway.

Marketing costs were reduced to US\$75,000 compared to US\$109,000 in the prior quarter.

Operational and commercial highlights

The global changes and impacts caused by COVID-19 has dramatically increased the importance placed on security, governments and commercial operations, and increased the applicability of SMX's

technology. This is expected to impact the speed of adoption due to the Company identifying a number of unique business opportunities.

SMX has been working closely with its strategic and commercial partners throughout the period to further leverage its network within existing verticals.

Binding joint venture agreement with BASF

SMX and BASF signed a binding joint venture agreement to develop solutions for plastics traceability and circularity.

Security Matters will contribute its technology to enable physical and digital tracking of closed loop recycling, authenticate sustainability claims and improve sorting of plastic waste. The partnership leverages BASF's extensive experience in plastic additives, regulatory know how and understanding of the plastics value chain

SMX and BASF will combine research and development capabilities and required resources as part of the agreement.

Subsequent events

trueGold Consortium is a newly formed entity with W.A. Mint Pty Ltd, a wholly owned subsidiary of The Perth Mint, Australia. It was launched at the end of the quarter. True Gold Consortium Pty Ltd (trueGold) will be owned 50/50 by SMX and W.A. Mint Pty Ltd, a subsidiary of the Perth Mint.

The establishment of trueGold's global tech platform once adopted, is expected to help to enhance, compliment and promote the current ESG frameworks provided by the World Gold Council (Responsible Gold Mining Principles) and London Bullion Market Association (Responsible Gold Guidance) by offering a technology and blockchain platform that can promote and drive integrity, anti-counterfeiting, corporate transparency, accountability and sustainability across the gold industry value chain.

SMX joins the World Business Council for Sustainable Development

SMX became a member of the World Business Council for Sustainable Development (WBCSD).

The World Business Council for Sustainable Development is a CEO-led global organisation of over 200 leading businesses across multiple industry sectors, all working together to accelerate the transition to a sustainable world.

Joining the WBCSD enables SMX to form valuable relationships and working partnerships with other members and key stakeholders to develop and scale-up sustainable and closed loop solutions. With SMX's technology and digital platform, WBCSD member companies will be able to trace, authenticate and verify the origin, supplier, manufacturer and exact composition of all raw materials in the finished product through every stage of the supply chain.

Outlook

SMX will continue to be vigilant and highly adaptive to the challenging environment it is operating in due to the global Covid-19 pandemic. It will remain discipline in terms of managing its expenses and overhead costs.

Driven by its long-term vision and staying focused on its key strategic market segments, SMX will continue to work towards accelerating the speed of adoption and commercialisation of its technology.

Building upon the innovative, entrepreneurship and excellence of our team, SMX will continue to offer our clients creative applications and solutions to trace, authenticate and verify the origin, supplier, manufacturer and exact composition of all raw materials in the finished product through every stage of the supply chain.

There is an ever-increasing ESG requirement for businesses and industries to adhere to, from various regulatory bodies, NGOs, stakeholders, shareholders and the wider public community. With more global companies seeking to meet their ESG responsibilities as well as transition successfully to a closed looped circular economy, SMX is adequately resourced and well placed to scale its technology to meet the demands of these global companies.

--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")

30 June, 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	135	260
1.2 Payments for		
(a) research and development	-261	-345
(b) product manufacturing and operating costs	-5	-10
(c) advertising and marketing	-75	-184
(d) leased assets	-2	-15
(e) staff costs	-354	-842
(f) administration and corporate costs	-499	-1,003
1.3 Dividends received (see note 3)		
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	-2	-8
1.6 Income taxes paid	0	0
1.7 Government grants and tax incentives	0	0
1.8 Other - GST and VAT return	31	117
1.9 Net cash from / (used in) operating activities	-1,028	-2,026
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	-95	-152
(d) investments		
(e) intellectual property	-85	-142
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'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	-180	-294

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	--	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	--	-133
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	-143	-143
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	-143	3,805

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,386	1,708
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1,028	-2,026
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-180	-294

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-143	3,805
4.5	Effect of movement in exchange rates on cash held	334	176
4.6	Cash and cash equivalents at end of period	3,369	3,369

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	3,369	4,386
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)	3,369	4,386

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
\$US'000**

-41

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\$32K.

Payments for services by Kibbutz Ketura (substantial shareholder) all at cost price: bookkeeping services, leased cars, rent, office costs- US\$9K.

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 \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	260	260
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	260	260

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 900,000 (USD 260K 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	\$US'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	-1,028
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,369
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	3,369
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3.3

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:31 July 2020.....

Authorised by:Chief Executive Officer.....
(Name of body or officer authorising release – see note 4)

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.