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30 October 2020

Q3/2020 – Quarterly Activity Report

- SMX delivered successful outcomes across ongoing projects with leading industry players as it accelerates the execution of its commercialisation strategy
- Record receipts from customers of US$160,000 delivered, up 18% on the prior quarter. This is the third consecutive quarter of organic growth.
- SMX decreased its net cash used in its operating activities by 16% to US$861,000 for the quarter, providing SMX with extended financial runway.
- trueGold Consortium Pty Ltd was launched, in collaboration between SMX and W.A. Mint Pty Ltd, a wholly owned subsidiary of The Perth Mint - focusing on global gold provenance and ESG compliance. Renowned mining businessman Hugh Morgan AC was appointed as Chairman of trueGold Consortium.
- BASF's reciChain pilot project is a consortium of twelve (12) leading industry players that successfully integrated SMX's technology to improve sorting and provide full traceability and transparency throughout the value chain for plastics.
- The International Bromine Council, the North American Flame Retardant Alliance and its member companies are utilising SMX's technology to advance research and approaches that will support the tracking and tracing of brominated flame retardants

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 September 2020 and provides an overview of its operational highlights.

Financial highlights

SMX delivered receipts from customers of US$160,000 representing an 18% increase on the June quarter and higher than 2019 annual receipts of US$137,000. This is the third consecutive quarter of organic growth.

The Company continued to implement cost reduction initiatives to build its financial resilience in an economic environment disrupted by a global health crisis. As a result, SMX decreased its net cash used in operating activities by 16% to US$861,000 for the quarter, providing SMX with extended financial runway.

Operational and commercial highlights

Formation of trueGold Consortium Pty Ltd

The trueGold Consortium was launched, in collaboration with W.A. Mint Pty Ltd, a wholly owned subsidiary of The Perth Mint, Australia. The launch followed the signing of a Shareholders Agreements (in relation to the trueGold Consortium) and a Licence Agreement for SMX's technology. True Gold Consortium Pty Ltd will be owned 50/50 by SMX and W.A. Mint Pty Ltd.

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As part of the launch renowned Australian mining businessman Hugh Morgan AC was appointed as Chairman of trueGold. Mr Morgan brings over 30 years' experience in the mining and investment sectors bringing a wealth of in-depth knowledge and an extensive global network of high-profile mining contacts.

Additionally, Zeren Browne was appointed as Managing Director. Zeren brings over 18 years' experience in global marketing and brand management and has previously held management roles and led the marketing and commercial business activities for brands under luxury & lifestyle conglomerates LVMH and Estee Lauder Companies.

As part of its commercialisation strategy, trueGold engaged precious metals expert Grant Angwin to conduct an independent review of the business framework that identified potential revenue channels, clients and customers for various gold products.

As such, 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.

Major companies and retailers join BASF's reciChain pilot

BASF, CSSA, Layfield, London Drugs, Merlin Plastics, NOVA Chemicals, Recycle BC, Return-It, Save on Foods and V.I.P. Soap have joined forces in a pilot project to respond to one of the most pressing environmental challenges – plastic waste. Supported by reciChain, these companies aim to strengthen the circular supply chain, extend the lifecycle of plastics, incentivise recycling, reduce waste and enhance resource efficiency in Canada.

reciChain combines the power of SMX's blockchain solution, with its physical marker that enables the secured sharing of transactional data while improving the sorting, tracing and monitoring of plastics throughout the value chain.

The SMX marker technology allows the tracking of plastics materials across the value chain using innovative digital twin technology. This track and trace technology used in reciChain marks plastic products with a unique "chemical barcode" and connects them to a digital twin.

Subsequent to the quarter end, the pilot project was successfully completed with SMX's technology enabling reciChain to function and operation in the circular economy. This resulted in full traceability of recycled plastics.

Commercial discussions in conclusion of this pilot project are expected to commence in Q4 2020.

Enhanced recycling for brominated flame-retardant materials

The International Bromine Council (BSEF), the North American Flame Retardant Alliance (NAFRA), and its member companies are utilising SMX's technology to advance research and approaches that support the tracking and tracing of brominated flame retardants.

As part of its global Circular Economy Action Plan, BSEF and its member companies have engaged in several projects and studies to improve end of life recycling of materials containing brominated flame retardants (BFRs). BSEF, NAFRA and its member companies are supporting an exciting new approach

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to sorting and separating brominated flame retardants using a chemical-based hidden "barcode" system, alongside a unique “reader” to identify these codes. These codes will enable a blockchain record to be developed to store and protect ownership data. The technology for this project was pioneered by Security Matters. SMX’s marking technology will be used to differentiate current and new BFR technologies from the legacy BFRs chemistry.

Outlook

During this time of continuing economic and health uncertainties, SMX will continue to build its resilience by strengthening its cost controls and balance sheet. The company will maintain a strategy focused on its key market segments and work towards accelerating the speed of adoption and commercialisation of its technology. SMX will rely on the strong momentum, agility and capability of its technology to deliver successful outcomes and results for companies transitioning to the sustainable circular economy. Together with the talent and innovativeness of its team, SMX is expected to produce strong commercial progress.

--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.

Follow us through our social channel *@secmattersltd*

Appendix 4C

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

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Name of entity	
Security Matters Limited	
ABN	**Quarter ended ("current quarter")**
78 626 192 998	30 September 2020

Consolidated statement of cash flows		**Current quarter $US'000**	**Year to date (9 months) $US'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	160	420
1.2	Payments for		
	(a) research and development	-182	-527
	(b) product manufacturing and operating costs	--	-10
	(c) advertising and marketing	-111	-295
	(d) leased assets	-20	-35
	(e) staff costs	-423	-1,265
	(f) administration and corporate costs	-409	-1,412
1.3	Dividends received (see note 3)		
1.4	Interest received	4	8
1.5	Interest and other costs of finance paid	-1	-9
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other - GST and VAT return	121	238
1.9	**Net cash from / (used in) operating activities**	**-861**	**-2,887**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment	-49	-201
	(d) investments		
	(e) intellectual property	-154	-296
	(f) other non-current assets		

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Consolidated statement of cash flows		Current quarter $US'000	Year to date (9 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**	**-203**	**-497**

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
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**	**--**	**3,805**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	3,369	1,708
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-861	-2,887
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-203	-497

Consolidated statement of cash flows		Current quarter $US'000	Year to date (9 months) $US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	--	3,805
4.5	Effect of movement in exchange rates on cash held	122	298
4.6	**Cash and cash equivalents at end of period**	**2,427**	**2,427**

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 $S'000
5.1	Bank balances	2,427	3,369
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)**	**2,427**	**3,369**

6.	Payments to related parties of the entity and their associates	Current quarter $US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-81
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

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$66K.

Payments for services by Kibbutz Ketura (substantial shareholder) all at cost price: bookkeeping services, rent, office costs- US$15K.

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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 $US'000**	**Amount drawn at quarter end $US'000**
7.1	Loan facilities	262	262
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	**Total financing facilities**	262	262

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 262K 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)	-861
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,427
8.3	Unused finance facilities available at quarter end (item 7.5)	--
8.4	Total available funding (item 8.2 + item 8.3)	2,427
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	**2.8**

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

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

8.6.1 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:

8.6.2 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:

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

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: .....30 October 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.

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