

28 July 2021

Q2/2021 – Quarterly Activity Report

In an economic environment disrupted by the global health crisis, SMX continues to exercise innovation and resilience by successfully raising additional capital, filing a new patent, launching a new industrial scale reader system, and achieving a series of R&D milestones in Q2, 2021.

- SMX successfully raised \$5.3 million in a private placement and entitlement offer at \$0.35 per share, which was largely supported by a range of sophisticated and strategic investors.
- A unique patent was filed for the computerized Exchange Platform (EXP) for the distributed management of electronic certificates associated with transactions of plastic units - transforming digital certificates into Plastic Credits with a monetized trading value. This will enable the trading of the Plastic Credits in the open market.
- The launch of the 'SMX Plastic Circular Economy Online Unit' is a significant milestone. SMX's industrial scale conveyor belt system is ready to be integrated as part of any sorting or recycling facilities, for any size or type of plastic (e.g. rigid and flexible packaging).
- SMX successfully completed its 'Rubber Plantation to Factory' project with a Tier 1 tyre and conveyor belt manufacturer. Focusing on the traceability for origination, as well as facilitating the recycling of natural and synthetic rubber tyres.
- A collaborative partnership with the Israeli Cotton Board (ICB) was formed, enabling organic cotton growers to provide accurate proof of origination and authentication of their organic cotton fibres from farm to final product.
- There is a rapid progression of R&D activities with near term commercial opportunities relating to cocoa, palm oil and soybeans.

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, is delighted to announce its Appendix 4C for the three months ended 30 June 2021 and provides an overview of its operational highlights.

Corporate and Financial highlights

SMX delivered receipts from customers of US\$267,000 representing a 24% increase on the first quarter 2021. This fifth consecutive quarter of organic growth was driven by the advancement of projects with TrueGold and BASF.

SMX continues to exercise vigilance with G&A costs in Q2 remaining relatively similar to Q1 at US\$567k and Q2 marketing costs kept at a minimum with US\$59k.

Our current funds will provide SMX financial runway into end Q2, 2022.

Successful Completion of \$5.3 million Placement and Entitlement Offer

The Company raised \$5.3 million before costs, issuing 14,890,086 new fully paid ordinary shares at \$0.35 per share pursuant to the Company's Listing Rule 7.1 placement capacity and 7.1A additional placement capacity. The issue price represented a 2% discount to the volume weighted average price of Security Matters ordinary shares for the last 30 days prior to its trading halt on 26 April 2021.

The Company also completed a pro-rata non-renounceable Entitlement Offer. The Offer was conducted at an offer price of \$0.35 per new share and eligible shareholders were invited to subscribe for 1 New Share for every 49 existing SMX shares held.

The Company received valid applications from eligible shareholders under the offer for approximately 380,000 new shares.

Operational and Commercial highlights

Patent Filed for System and Method of Managing Digital Certificates Associated with Marked Physical Objects

SMX continued to build on its established intellectual property with the filing of a patent for the computerized Exchange Platform (EXP), for the distributed management of electronic certificates associated with transactions of plastic units. The EXP is configured to:

- (i) Use chemical marking to associate the plastic units with digital certificates representative of rights to produce the units of virgin plastic material.
- (ii) Keep certified recording of parties that, at each given point-in-time, are in possession of the plastic units and the parties that, at each given point-in-time, are in possession of the digital certificates.
- (iii) Enable transforming the digital certificates into Plastic Credits characterized by a monetized trading value.
- (iv) Enable trading of the Plastic Credits.

Launch of the 'SMX Plastic Circular Economy Online Unit'

The SMX Plastic Circular Economy online unit is a revolutionary conveyor belt detector system that will unlock the ability to reclaim and reuse all types of plastic content. By utilising SMX's breakthrough technology to mark the plastic at virgin stage as well as at recycling and sorting facilities – this will enhance the sorting capability, resulting in higher rates of plastic recycling content.

SMX completed the construction and successful testing of its blockchain enabled industrial scale identification, authentication, and quantification on a conveyor belt detector, in collaboration with its strategic partners in the plastics sector and is now ready for commercial application.

The SMX conveyor belt detector has been designed to meet the sorting and recycling requirements of major players in the plastics sector and the system provides valuable information on the materials flowing through the value chain to increase in recycling efficiency. It is ready to be integrated as part of any sorting or recycling facilities, for any size or type of plastic (e.g. rigid and flexible packaging).

The SMX conveyor belt detector is now poised for commercial roll-out and commercial discussions have commenced.

‘Plantation to Factory’ Project with Tier 1 Global Tyre Company

Rubber is a precious natural resource. Currently most worn-out tyres end up in incineration or downcycled to become playground safety mats or carpet underlay. Our SMX breakthrough technology aims to create a market standard to enable rubber from worn out tyres to be recycled and returned to the production of new tyres and retreads. Facilitating the recycling of natural and synthetic rubber tyres, as well as tyres made of both natural and synthetic rubbers.

SMX successfully completed its proof-of-concept (POC) testing with a tier one global tyre and conveyor belt production company. The POC demonstration conducted by SMX proved that it can enable: (i) an accurate identification of rubber from ethical plantation sources; (ii) digitally certify the grade/quality of the natural rubber; (iii) accurately identify the amount of natural rubber contained in the finished good; and (iv) enable the reuse/recycling of the tyre at end-of-life.

SMX is currently engaged in commercial discussions with the Tier 1 tyre and conveyor belt manufacturer.

SMX’s Fashion Sustainability Centre - ‘Farm to Fabric’ Proof of Concept

There is an increasing demand for organic cotton as brands expand their use of the fiber in their product lines in response to concerns over the textile industry’s impact on the environment and consumer demands for sustainable choices. With SMX’s technology, it will enable growers to accurately verify and certify the origination of where the organic cotton was grown, which will give full traceability of the organic cotton fibres from farm to final cotton products and garments.

A collaborative partnership with the Israeli Cotton Board (ICB) was formed at the beginning of the new organic cotton planting season in April 2021, where SMX successfully deployed its technology to mark cotton plants at the seed stage. This POC will continue all the way to Ginning stage and through the various manufacturing processes to the finished garment.

This POC allows for companies to verify that all organic cotton sourced from Israel meets minimum standards of quality, proof of origination, ESG requirements and sustainability beyond a paper certificate. The SMX markers are also sensitive to any dilution or substitution of the organic cotton, protecting ICB organic cotton’s integrity and authenticity. Thus, giving an additional layer of production and assurance of quality to ICB’s buyers.

Rapid Progression of R&D Activities

There are several R&D Activities with near term commercial opportunities that are progressing strongly such as cocoa, palm oil and soybeans. Currently SMX is engaged in discussions with key entities that are co-ordinating with the farming groups, processors, and manufacturers to enable full traceability and verification of origination and ESG practices from farm level through to the finish product.

Haggai Alon, Founder and CEO comments:

"SMX remains firmly committed to staying on track with its strategic roadmap for the SMX technology to be adopted and scaled up across its strategic market segments globally. Driven by its long-term vision and innovativeness, SMX will continue to offer its clients the ability to authenticate and verify the origination of its raw materials as well as transition successfully to a closed loop economy.

With a strong balance sheet reinforced by the recent Placement and Entitlement Offer, supported by a range of sophisticated and strategic investors, SMX will utilise this to progress ongoing pilot projects into commercial contracts.

SMX will stay vigilant and resilient in the midst of a continuing uncertain environment disrupted by a global health pandemic."

--Ends--

By order of the Chief Executive Officer.

For further information, please contact:

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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, 2021

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	267	482
1.2 Payments for		
(a) research and development	-217	-631
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-59	-106
(d) leased assets	-20	-43
(e) staff costs	-631	-1,241
(f) administration and corporate costs	-567	-1,130
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	-2	-4
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (VAT)	158	278
1.9 Net cash from / (used in) operating activities	-1,070	-2,393
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-28	-143
(d) investments	-	-
(e) intellectual property	-337	-642
(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	-365	-785

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	4,120	4,193
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	119	328
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-296	-322
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
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	3,943	4,199

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,837	4,339
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1,070	-2,393
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-365	-785

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)	3,943	4,199
4.5	Effect of movement in exchange rates on cash held	-83	-98
4.6	Cash and cash equivalents at end of period	5,262	5,262

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	5,262	2,837
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)	5,262	2,837

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	58
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

Payments to directors - US\$ 37,945.

Payments for service by Kibbutz Ktura (substantial shareholder) all at cost price: bookkeeping service, IT support, rent office costs - US\$ 20,423

7.	Financing facilities <i>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.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1	Loan facilities	276	276
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	276	276
7.5	Unused financing facilities available at quarter end		0
7.6	<p>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.</p> <p>Shareholder loan from Ketura and Degania (substantial shareholders of SMX) for ILS 900,000 (USD 276K at quarter end). Terms of loan: 1) Annual interest rate of 4%. 2) Loan repayment in quarterly instalments of ILS 250,000 (~US\$ 77K) The loan is described in more detail in the prospectus in section 10.16 and in a pre-quotation disclosure dated 11 October 2018.</p>		

8.	Estimated cash available for future operating activities	\$US'000
8.1	Net cash from / (used in) operating activities (item 1.9)	-1,070
8.2	Cash and cash equivalents at quarter end (item 4.6)	5,262
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	5,262
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.92
<p><i>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.</i></p>		
8.6	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>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?</p> <p>Answer: N/a</p> <p>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?</p> <p>Answer: N/a</p>	

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: N/a

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:28 July 2021.....

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.