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27 October 2021

Q3/2021 – Quarterly Activity Report

- Record receipts from customers of US$299K for Q3 2021, an increase of 12% compared to US$267K in Q2 2021, and up 39% from US$215K in Q1 2021.
- SMX remained disciplined in terms of managing its costs during Q3 2021 with G&A costs down 11% to US$503K compared to $567K in Q2 2021. Marketing costs were kept to a minimum at US$64K, along with travel expenses due to COVID restrictions, limiting SMX team's ability to meet customers onsite at their facilities internationally.
- SMX continued to reinforce its strong cash position, following a capital raise of $3.1 million via a placement through Euroz Hartleys subsequent to quarter end, providing a runway through to the end of Q4, 2022.
- SMX and Continental, one of the world's leading tyre manufacturers entered into a Collaboration Agreement to provide greater transparency and traceability along its entire value chain of tyres and technical rubber products.
- SMX joins the Plastic Recycling Association of Singapore (PRAS), a leading non-profit organisation, to develop solutions for recycling challenges in Singapore and for the Southeast Asian region.

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 provide an overview of its operational highlights for the three months ended 30 September 2021 ("Quarter", "Reporting Period") to accompany its Appendix 4C.

Corporate & Financial highlights

At the current expense rate, including receipts from customers, our funds as of 30 September, will support existing company activities until the end of Q3 2022. This is without taking into account: (i) the expected increase in revenue and receivables from customers, and (ii) the additional funds received from the $3.1 million placement which took place via Euroz Hartleys subsequent to quarter end, that will provide a runway through to the end of Q4, 2022.

Pursuant to Listing Rule 4.7C.3 and as disclosed respectively in items 6.1 and 6.2 of the Appendix 4C, US$7K was paid in respect of administrative costs to entities associated with the Directors and US$105K was paid as a repayment of borrowings to substantial shareholders of the Company.

Operational and Commercial highlights

Strategic R&D Agreement to Trace Natural Rubber with Automotive Giant, Continental

SMX and Continental, one of the world's leading premium tyre manufactures, strengthened ties by entering into a strategic Collaboration Agreement to develop and test marker technology for use in natural rubber.

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The R&D agreement utilises SMX's patented technology to track and trace the rubber and is aimed at creating greater transparency and traceability along the entire value chain of tyres and technical rubber products produced by Continental.

Using special security enhanced marker substances, the natural rubber is embedded with information regarding geographical origin, ensuring ethical sourcing and allows for the finished product to be tracked throughout its lifecycle. Extensive laboratory testing has been carried out on different types of rubber, yielding successful results, with additional testing forthcoming.

As part of the industrialization of this technology, SMX continues to develop the requirements needed to integrate the marker process with blockchain technology, which is known to be particularly forgery-proof.

This partnership is driven by SMX's goal of creating a circular economy, where sustainability and environmental impacts are a key focus. Continental shares the same vision and is working toward becoming the most environmentally and socially responsible tyre company by 2030.

By 2050, at the latest, Continental aims to use 100 percent sustainably produced materials in its tyre products and achieve complete climate neutrality along its entire value chain.

SMX Becomes a Member of the Plastic Recycling Association of Singapore (PRAS)

SMX became a member of the Plastic Recycling Association of Singapore (PRAS), a leading non-profit organisation that engages with key stakeholders, from large companies to governmental agencies and ministries. SMX and PRAS will work together to identify suitable pilot projects in the regional market, along with the establishment of a Plastic Recycling Centre of Excellence (PRCOE), which will develop solutions for recycling challenges in Southeast Asia and Singapore.

With SMX's technology and digital platform, PRAS will be able to unlock the ability to reclaim and reuse all types of plastic content, as well as the ability to detect and quantify, (i) the name of the brand owner; (ii) The % amount of recycled content; (iii) The type of plastic polymer and (iv) The number of times the plastic polymer has been recycled (loop counts).

By deploying SMX's technology, PRAS will help companies and governments across the ASEAN region to gain a competitive advantage in the circular economy starting with a PET bottle to bottle plant, followed by other mechanical and chemical recycling facilities.

Haggai Alon, Founder and CEO, commented:

"SMX continues to make strides towards the commercialisation of our patented technology, with the Company now fully funded until Q4 2022. The Company's strategic collaboration with Continental validates this goal by enabling a global tier 1 company to track and trace natural rubber throughout the supply chain and product lifecycle.

SMX is establishing its market presence within the Asia Pacific region, first in Singapore which is the international trading hub for rubber, plastics and other key commodities for its neighbouring Southeast Asian markets. Hence SMX's involvement in PRAS is one of a few key initiatives that the

Company will be actively participating in collaboration. In the coming year, SMX intends to expand its focus and footprint to Japan.

SMX remains stable, retaining a strong balance sheet which enables the Company to be well resourced and confident in its progression towards the adoption and commercialisation of its technology, across its strategic market segments globally."

--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.

Follow us through our social channel *@secmattersltd*

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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, 2021

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	299	781
1.2	Payments for		
	(a) research and development	-249	-880
	(b) product manufacturing and operating costs	-	-
	(c) advertising and marketing	-64	-170
	(d) leased assets	-22	-65
	(e) staff costs	-618	-1,859
	(f) administration and corporate costs	-503	-1,633
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	3
1.5	Interest and other costs of finance paid	-1	-5
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (VAT & GST returns)	175	453
1.9	**Net cash from / (used in) operating activities**	**-982**	**-3,375**
2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-65	-208
	(d) investments	-	-
	(e) intellectual property	-191	-833
	(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**	**-256**	**-1,041**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	4,193
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	66	394
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-322
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-105	-105
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**	**-39**	**4,160**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	5,262	4,339
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-982	-3,375
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-256	-1,041

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)	-39	4,160
4.5	Effect of movement in exchange rates on cash held	-139	-237
4.6	**Cash and cash equivalents at end of period**	**3,846**	**3,846**

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	**3,846**	**5,262**
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)**	**3,846**	**5,262**

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	7
6.2	Aggregate amount of payments to related parties and their associates included in item 2	105

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.

1. Payments for service by Kibbuts Ketura (substantial shareholder) all at cost price: bookkeeping service, IT support, rent office costs. There were no payments of remuneration to Directors during the quarter.
2. Repayment of borrowings from Kibbuts Ketura and Degania (substantial shareholders of SMX).

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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	173	173
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	**173**	**173**

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 560,000 (USD 173K 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.

8.	**Estimated cash available for future operating activities**	**$US'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	-982
8.2	Cash and cash equivalents at quarter end (item 4.6)	3,846
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	**3,846**
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	3.92

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: N/a

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: N/a

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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: 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: .....27 October 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.

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