

**SECURITY MATTERS LTD.**

**INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2018**

**UNAUDITED**

**SECURITY MATTERS LTD.**

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The amounts are stated in thousand U.S dollars

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## Report on review of interim financial information to the shareholders of

### Security Matters Ltd.

#### Introduction

We have reviewed the accompanying interim balance sheet of Security Matters Ltd. (the "Company") as of June 30, 2018 and the related interim statements of comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRSs). Our responsibility is to express a conclusion on this interim financial information based on our review.

#### Scope of review

We conducted our review in accordance with International standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of Interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the Company as at June 30, 2018, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards (IFRSs).

Tel-Aviv, Israel

September 20, 2018

  
Ziv Haft  
Certified Public Accountants (Isr.)  
BDO Member Firm



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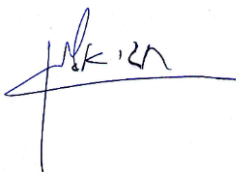
**SECURITY MATTERS LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
(US Dollar in thousands)

	<b>Note</b>	<b>June 30, 2018 Unaudited</b>	<b>December 31, 2017</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		775	11
Trade receivables		22	-
Other account receivable		101	163
<b>Total current assets</b>		<u>898</u>	<u>174</u>
<b>NON-CURRENT ASSETS:</b>			
Property and equipment, net		338	360
Intangible assets, net		871	779
<b>Total non-current assets</b>		<u>1,209</u>	<u>1,139</u>
<b>TOTAL ASSETS</b>		<u><u>2,107</u></u>	<u><u>1,313</u></u>

The accompanying notes are an integral part of the financial statements.

**SECURITY MATTERS LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
(US Dollar in thousands)

	<b>Note</b>	<b>June 30, 2018 Unaudited</b>	<b>December 31, 2017</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables		377	391
Other accounts payable		320	352
Convertible loan at fair value	4	1,546	3,586
Current portion of loans from related parties		205	72
<b>Total current liabilities</b>		<u>2,448</u>	<u>4,401</u>
<b>NON-CURRENT LIABILITIES:</b>			
Loans from related parties		315	476
Other long term liabilities		63	95
<b>Total non-current liabilities</b>		<u>378</u>	<u>571</u>
<b>EQUITY:</b>			
	5		
Share capital		5,582	1,250
Capital reserve		896	720
Prepayments on account of shares		-	130
Retained earnings		(7,197)	(5,759)
<b>Total equity</b>		<u>(719)</u>	<u>(3,659)</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>2,107</u>	<u>1,313</u>



Haggai Alon  
Chief Executive Officer



Yonatan Musnikow  
Chief Financial Officer

September 20, 2018

Date of approval of the  
Financial statements

**The accompanying notes are an integral part of the financial statements.**

**SECURITY MATTERS LTD.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
(US Dollar in thousands except loss per share)

	<u>Note</u>	<u>Six months ended</u>	
		<u>June 30, 2018</u>	<u>June 30, 2017</u>
		<u>Unaudited</u>	
Revenues		43	-
Cost of revenues		31	-
Gross profit		12	-
Share based compensation		176	517
Research and development expenses		637	437
General and administrative expenses		379	208
Selling and marketing expenses		11	24
Operating loss		1,191	1,186
Finance income		4	-
Finance expenses		251	638
Loss before tax		1,438	1,824
Taxes on income		-	-
<b>Total comprehensive loss</b>		<u>1,438</u>	<u>1,824</u>
 <b>Basic and diluted loss per share</b>		 <u>0.014</u>	 <u>*0.021</u>

\* Retroactive effect to reflect the stock split occurred in 2018 – see note 5.

The accompanying notes are an integral part of the financial statements.

**SECURITY MATTERS LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(US Dollar in thousands)**

**For the six months ended June 30, 2018**

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Capital reserve</u>	<u>Prepayments on account of shares</u>	<u>Accumulated deficit</u>	<u>Total</u>
<b>Balance at January 1, 2018</b>	*	1,250	720	130	(5,759)	(3,659)
<b>Changes during the period:</b>						
Issuance of shares	*	750	-	(130)	-	620
Share based compensation	-	-	176	-	-	176
Conversion of convertible loan	*	3,582	-	-	-	3,582
Total comprehensive loss	-	-	-	-	(1,438)	(1,438)
<b>Balance at June 30, 2018</b>	*	5,582	896	-	(7,197)	(719)

**For the six months ended June 30, 2017**

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Capital reserve</u>	<u>Prepayments on account of shares</u>	<u>Accumulated deficit</u>	<u>Total</u>
<b>Balance at January 1, 2017</b>	*	500	-	-	(2,706)	(2,206)
<b>Changes during the period:</b>						
Issuance of shares	*	200	-	-	-	200
Share based compensation	-	-	517	-	-	517
Total comprehensive loss	-	-	-	-	(1,824)	(1,824)
<b>Balance at June 30, 2017</b>	*	700	517	-	(4,530)	(3,313)

\* Less than 1 thousand dollars

**The accompanying notes are an integral part of the financial statements.**

**SECURITY MATTERS LTD.**  
**STATEMENTS OF CASH FLOWS**  
**(US Dollar in thousands)**

	<b>Six months ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
	<b>Unaudited</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the year	(1,438)	(1,824)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	55	24
Decrease in other account receivable	62	6
Share based compensation	176	517
Change in fair value of convertible loan	301	492
Increase in trade receivables	(22)	-
Increase (decrease) in trade payables	(14)	154
Increase (decrease) in other long term liabilities	(32)	23
Increase (decrease) in other accounts payable	(32)	29
Exchange rate differences	22	52
<b>Net cash used in operating activities</b>	<b>(922)</b>	<b>(527)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(20)	-
Capitalized development costs	(105)	(136)
<b>Net cash used in investing activities</b>	<b>(125)</b>	<b>(136)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Receipts of convertible loan	1,191	572
Issuance of shares, net	620	200
<b>Net cash provided by financing activities</b>	<b>1,811</b>	<b>772</b>
<b>Net Increase in cash and cash equivalents</b>	<b>764</b>	<b>109</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>11</b>	<b>137</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>775</b>	<b>246</b>
<b>APPENDIX A - NON-CASH ACTIVITIES:</b>		
Conversion of convertible loan into issued capital	3,582	-

The accompanying notes are an integral part of the financial statements.



**SECURITY MATTERS LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(US Dollar in thousands)**

**NOTE 1 - GENERAL:**

Security Matters Ltd. (the "Company") was incorporated in August 2014 and began its business activity during the year of 2015.

The Company is engaged with developing and commercializing a suite of solutions to solve many significant brand challenges; authenticity, supply chain management, brand accountability & quality assurance. The Company technology is a chemical-based hidden barcode system, alongside a unique "reader" to identify these codes.

The technology is valid for various industries, including but not limited to; electronics, plastic, chemicals & additives, polymers, minerals and precious stones, food items, paints and coatings, 3D printing, pharma and seeds (agriculture). The Company solutions can be embedded in the product during the manufacturing process or via its raw materials or applied to the final product.

The Company has financed itself up to date by loans from shareholders and issuance of shares. Security Matters Limited, (the "Australian Company"), lodged a replacement prospectus with ASIC on August 7, 2018. Upon listing on the ASX, the Australian Company intends to acquire 100% of Security Matters Ltd. and the shareholders will receive consideration shares in the Australian Company. The consideration to be raised will continue to fund the commercialization of the technology and marketing activity until reaching sufficient operating profit.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

The significant accounting policies followed in the preparation of the financial information, on a consistent basis, are:

**Basis of preparation**

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2017 annual report.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual report of the Company.

During the six month period ended June 30, 2018, the Company also applied the following new accounting standards:

**SECURITY MATTERS LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(US Dollar in thousands)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**New standards, interpretations and amendments effective from January 1, 2018**

IFRS 9 Financial Instruments:

The Company applies IFRS 9, "Financial Instruments" ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39, "Financial Instruments: Recognition and Measurement". The adoption of IFRS 9 had no material impact on the Company's financial statements.

IFRS 15 – "Revenue from Contracts with Customers" (hereafter – IFRS 15):

The Company applies IFRS 15 ('The Standard') as of January 1, 2018. The standard supersedes other IFRS provisions relating to revenue recognition. The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The adoption of IFRS 15 had no impact on the Company's financial statements.

**NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:**

**Amortization of capitalized development costs and the useful life of property and equipment**

Intangible assets and property and equipment are amortized or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income in specific periods.

**Share based compensation**

The Company has a share based remuneration scheme for employees. The fair value of share options is estimated by using the Black & Scholes model, on the date of grant based on certain assumptions. Those assumptions are described in note 5 and include, among others, the dividend growth rate, expected share price volatility, expected life of the options and number of options expected to vest. The fair value of the equity settled options granted is charged to the statement of comprehensive income over the vesting period of each tranche and the credit is taken to equity. The share options plan does not have any performance conditions other than continued service.

**SECURITY MATTERS LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(US Dollar in thousands)**

**NOTE 4 - CONVERTIBLE LOAN AT FAIR VALUE:**

In June 2016, the Company signed convertible loan agreements (the "Convertible Loan") with a number of investors (the "Investors"), in which the Company borrowed a total amount up to NIS 6 Million. On January 2, 2017, the Company received an additional amount of NIS 2 Million from a third party.

The Convertible Loans terms are according to the following:

1. The Convertible Loan does not include any interest.
2. Conversion date - March 31, 2018.
3. Conversion price - in case that the Company will complete an equity capital-financing round of at least \$1.5 Million according to Company pre-money valuation of \$18 Million, each of the Investors will receive a discount rate of 35%-43% (varies depending on any further capital investment) of the lowest price per share (hereafter "PPS") paid in the equity capital-financing round.

The Convertible Loans were presented at fair value with changes on fair value recognized in statement of operations.

In March 2018, the Convertible Loans were converted to a total of 17,553 shares of the Company.

In May and June 2018, the Company signed additional convertible loan agreements (the "Second Convertible Loans") with a number of different investors, in which the Company borrowed a total amount of AUD 1.68 Million. The Second Convertible Loans does not include any interest.

The Inventors may convert the loan amount into capital shares at a PPS, equal to:

1. 30% discount of the lowest PPS paid in the IPO.
2. In an exit event, 70% of the PPS based on the Company pre-money valuation, on a fully diluted basis. An exit event means the occurrence of trade sale or the date on which listing approval occurs.

Unless converted earlier, the Second Convertible Loans will be repaid in cash according to 120% of the principal amount up to 12 months from the signing date of the agreements.

**SECURITY MATTERS LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(US Dollar in thousands)**

**NOTE 5 - EQUITY:**

**Composed as follows as of June 30, 2018 and December 31, 2017**

	<b>Number of shares as of June 30, 2018</b>	
	<b>Authorized</b>	<b>Issued and outstanding</b>
Ordinary shares of NIS 0.00001 par value	<u>10,100,000,000</u>	<u>113,465,000</u>
	<b>Number of shares as of December 31, 2017</b>	
	<b>Authorized</b>	<b>Issued and outstanding</b>
Ordinary shares of NIS 0.01 par value	<u>10,100,000</u>	<u>91,889</u>

Ordinary shares confer upon their holders the rights to receive notice to participate and vote in general meeting of the Company, and the right to receive dividends if declared.

- A. In July 2017, the Company's shareholders approved the increase of the number of shares authorized from 100,000 to 10,100,000.
- B. In 2017, the Company issued 4,089 ordinary shares of NIS 0.01 par value to several shareholders and investors in consideration of a total amount of 750.
- C. As of December 31, 2017, the Company received 130 as prepayment on account of shares. The shares were issued in February 2018.
- D. On February 2018, the Company raised capital of 750 by issuance of 4,023 shares. The investors were the current shareholders of the Company.
- E. In February 2018, following the completion of an investment round of 1,500, all of the Convertible Loans were converted into 17,553 ordinary shares of the Company (see also Note 4).
- F. In March 2018, the Company's shareholders approved a share split of the Company's shares, of which the par value of each ordinary share shall change from NIS 0.01 to NIS 0.00001 and the Company's authorized share shall increase to 10,100,000,000 ordinary shares of par value NIS 0.00001.

\* Retroactive effect to reflect the split occurred in 2018 – see note 5.

**SECURITY MATTERS LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(US Dollar in thousands)**

**NOTE 5 - EQUITY (CONT.):**

**Share based compensation**

In 2017, the Company established a share option plan (the "Plan"). Under the Plan 6,759 options for ordinary shares have been granted to employees throughout 2017 and 1,350 options throughout January 2018. The options have an exercise price per share of NIS 103, NIS 184, and \$186.

The vesting period varies between 3 to 5 years which begins on the vesting commencement date. Contractual life of the options under the Plan is 10 years.

In March 2018, 1,987 options for ordinary shares have been granted to employees with an exercise price per share of AUD 200. The vesting period is 2 years, which begins on the vesting commencement date. Contractual life of the options under the Plan is 5 years.

The options were granted under section 102 to Israeli tax ordinance which enables the employee to pay 25% of capital gain tax upon exercise. According to the options grant agreements, the employees must provide services up to the vesting date of the options.

In March 2018, the shareholders and board of the Company allocated 9,645 shares from the Company authorized shares, equal to 8.5% of Company issued shares, for a pool of employee shares option plan, as a preparation for the initial public offering.

	<b>Six months ended June 30, 2018</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at beginning of year	5,796	\$ 35
Granted	3,337	\$ 169
Exercised	-	
Forfeited and cancelled	-	
Outstanding at end of period	9,133	\$ 83
Exercisable options	2,966	\$ 35

**SECURITY MATTERS LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(US Dollar in thousands)**

**NOTE 5 - EQUITY (CONT.):**

**Share based compensation (cont.)**

	<b>Year ended December 31, 2017</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at beginning of year	-	-
Granted	6,759	\$ 35
Exercised	-	
Forfeited and cancelled	(963)	\$ 35
Outstanding at end of year	<u>5,796</u>	<u>\$ 35</u>
Exercisable options	<u>1,720</u>	<u>\$ 35</u>