



15 October 2018

ASX ANNOUNCEMENT

## SECURITY MATTERS LIMITED (ASX: SMX)

### FULL TERMS OF THE PERFORMANCE OPTIONS

The following information is required to be provided to ASX Limited (**ASX**) for release to the market in connection with the admission to the official list of, and official quotation of, fully paid ordinary shares in Security Matters Limited (ACN 626 192 998) (**Company**).

Unless otherwise defined in this announcement, capitalised terms used in this announcement have the meaning given to them in the Prospectus dated 24 July 2018 (as varied by the Replacement Prospectus dated 7 August 2018) (**Replacement Prospectus**) and the Supplementary Prospectus dated 10 August 2018 (**Supplementary Prospectus**).

The full terms and conditions of the Performance Options under the Share Option Plan are set out in the Schedule to this announcement.

Signed for and on behalf of the Board

A handwritten signature in black ink, appearing to read "Mark Licciardo", with a stylized flourish at the end.

**Mark Licciardo**  
Company Secretary

## SCHEDULE: TERMS OF PERFORMANCE OPTIONS

The Company will issue Performance Options under the Company's Share Option Plan to the following persons:

Recipient	Nominee	Number	Rationale
Haggai Alon	Benguy Escrow Company Ltd. (as escrow agent)	5,000,000	Chief Executive Officer
Ed Hofland	Kibbutz Ketura ACS	5,000,000	Executive Chairman
David Rosenblatt	Security Matters Investment LLC	5,000,000	Executive Director, Vice Chairman

The key terms of the Performance Options are:

- (a) **(Performance Option)**: each Performance Option, subject to paragraph (j), confers upon the holder (**Holder**) the right to be issued one share in the capital of the Company (**Share**) on the exercise of the Performance Option.
- (b) **(Dividend and Voting Rights)**: a Performance Option does not confer upon the Holder an entitlement to vote or receive dividends.
- (c) **(No rights to return of capital)**: a Performance Option does not entitle the Holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (d) **(Share ranking)**: all Shares issued to a Holder on the exercise of a Performance Option will upon issue rank *pari passu* in all respects with all other shares.
- (e) **(Listing of Shares on ASX)**: the Company will not apply for quotation of the Performance Options on ASX. However, if the Company is listed on the ASX at the time that Shares are issued to the Holder pursuant to the exercise of a Performance Option, the Company will apply for quotation of all such Shares on ASX within the period required by ASX.
- (f) **(Transfer of Performance Options)**: a Performance Option is not transferable (including encumbering the Performance Options).
- (g) **(Participation in new issues)**: there are no participation rights or entitlements inherent in the Performance Options and Holders will not be entitled to participate in new issues of capital offered to Members during the currency of the Performance Options.
- (h) **(Adjustment for reconstruction)**: if, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a Holder of a Performance Option (including the exercise conditions) are to be changed in a manner consistent with the applicable laws and the ASX Listing Rules at the time of the reorganisation.
- (i) **(Exercise Price)**: the exercise price of each Performance Option will be AU\$0.20 (**Exercise Price**).

- (j) **(Exercise):** subject to paragraph (k), on the exercise of each Performance Option, one Share will be issued upon the receipt of a written notice from the relevant Holder requesting that the Performance Option is exercised following the achievement within four years (**Sunset Date**) of the following milestones and the payment of the Exercise Price (**Milestones**) within five years of the issue of the Performance Options:

Tranche	No of shares	Revenue milestone	Tech milestones	No of shares allocated to each recipient
1	5,000,000	\$1 million revenues per half year for 2 consecutive half years	<ul style="list-style-type: none"> <li>Completion of bank of 25,000 markers for plastics industry</li> <li>Completion of PDR (Preliminary Design Review) for Reader development</li> </ul>	Haggai Alon – 1,666,667  Ed Hofland - 1,666,667  David Rosenblatt - 1,666,666
2	5,000,000	\$2 million revenues per half year for 2 consecutive half years	<ul style="list-style-type: none"> <li>Completion of bank of 25,000 markers for Electronics industry</li> <li>Completion of CDR (Critical Design Review) for Reader development</li> <li>Completion of blockchain software adaptation to the reader software</li> </ul>	Haggai Alon – 1,666,667  Ed Hofland - 1,666,666  David Rosenblatt - 1,666,667
3	5,000,000	\$4 million revenues per half year for 2 consecutive half years	<ul style="list-style-type: none"> <li>Design and construction of automatic Marker production machine</li> <li>Completion of development of new proprietary Reader at cost per reader of less than US\$7,500</li> </ul>	Haggai Alon – 1,666,666  Ed Hofland - 1,666,667  David Rosenblatt - 1,666,667

- (k) **(Deferral of share issue if resulting in a prohibited acquisition of shares):** if the issue of Shares to a Holder pursuant to the exercise of the Performance Option would result in any person being in contravention of section 606(1) of the applicable laws (**Prohibition**), the issue of such Shares shall be deferred until such time or times when the issue of Shares would not result in a contravention of the Prohibition. In assessing whether the issue of shares would result in any person being in contravention of the Prohibition:
- Holders may give written notice to the Company if they consider that the issue of Shares may result in contravention of the Prohibition. The absence of such written notice from the Holder will entitle the Company to assume that the issue of Shares will not result in any person being in contravention of the Prohibition.
  - the Company may (but is not obliged to) by written notice to a Holder request that a Holder provides the written notice referred to in paragraph (k)(i) above within 7 days if the Company considers that the issue of shares may result in the contravention of the Prohibition. The absence of such written notice from the Holder will entitle the Company to assume that the issue of Shares will not result in any person being in contravention of the Prohibition.

- (l) **(If Milestone not Achieved)**: if the relevant Milestone is not achieved by the Sunset Date, then each Performance Option in that class will automatically lapse on the non-satisfaction of the relevant Milestone.
- (m) **(Issue of shares procedure)**: if a relevant Milestone in paragraph (j) is achieved prior to the Sunset Date, the Company will issue the Holder with a new holding statement for any Share issued upon the exercise of a Performance Option within 10 business days following the exercise of the Performance Option.
- (n) **(Continued service)**: a Holder must be a Director, Advisory Board member, consultant or employee of the Company or a subsidiary thereof. A Holder's entitlement to Performance Options ceases upon the date that the Holder ceases to be either a Director, Advisory Board member, consultant or employee of the Company.
- (o) **(Rights on termination or resignation of continued service)** Notwithstanding anything to the contrary herein, a Performance Option may be exercised after the date of termination or resignation of a Holder's service or employment with the Company or any subsidiary of the Company only with respect to the number of Performance Options already vested and unexpired at the time of such termination, provided however, that;
  - (i) such termination is without Cause (as defined below) in which case the Performance Options shall be exercisable within not more than 90 days from the effective date of such termination; or
  - (ii) such termination is the result of death or permanent disability of the Holder, in which case the Performance Options shall be exercisable within 12 months from the effective date of such termination.

The term "**Cause**" shall mean:

- (i) conviction of any felony involving moral turpitude or otherwise affecting to the detriment the Company or its subsidiaries;
- (ii) any refusal to carry out a reasonable directive of the CEO or the Board of Directors which involves the business of the Company or its subsidiaries and was capable of being lawfully performed;
- (iii) embezzlement of funds of the Company or its subsidiaries or other malicious behaviour against the Company or its subsidiaries or against the State of Israel;
- (iv) any breach of the Holder's fiduciary duties or duties of care of the Company or any subsidiary; including, without limitations, disclosure of confidential information of such entity or breach of non-compete provision of the engagement agreement of such Holder; and
- (v) any conduct (other than conduct in good faith) reasonably determined by the Board of Directors to be materially detrimental to the Company or any subsidiary.