



15 October 2018

ASX ANNOUNCEMENT

## SECURITY MATTERS LIMITED (ASX: SMX)

### FULL TERMS OF THE SHAREHOLDER LOAN BONUS PAYMENT

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 shareholder loan bonus payment (as set out in section 10.16(c) of the Prospectus) 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 long horizontal stroke extending to the right.

**Mark Licciardo**  
Company Secretary



## SCHEDULE: SHAREHOLDER LOAN BONUS PAYMENTS

### 1. Overview

The Kibbutz Movement is a union of approximately 230 kibbutzim (plural of Kibbutz - a cooperative communal settlement) in Israel. A fund was established by the Economics Department of the Kibbutz Movement to encourage kibbutzim to invest in advanced technology (**Kamea Fund**).

The Kamea Fund is restricted to granting loans to Kibbutzim, and not directly to a private company. On that basis, the Kamea Fund provided loans to Kibbutz Ketura and Kibbutz Degania (each, a **Lender**) who, in turn, provided back-to-back loans to Security Matters Israel in 2015.

The Lenders transferred the loans in full to Security Matters Israel who covenanted to bear the full terms of the loans as if Security Matters Israel is the borrower from the Kamea Fund.

In consideration for the Kamea Fund providing those loans and taking on the risks associated with providing funding as a seed capitalist (through the back-to-back loans provided by the Lenders), Security Matters Israel agreed to provide, as additional consideration, a bonus payment on the occurrence of an exit or major liquidity event. This bonus payment is customary in early stage funding of start-ups in Israel by the Kamea Fund.

The compensation is capped at ILS 3,000,000 (approximately AUD 1.1 million) per each Lender (together, the **Bonus Payments**).

The Bonus Payments are intended to operate so that, in the event of:

- (i) dividend distributions paid by the Company; or
- (ii) additional consideration for the sale of shares by a Lender in Security Matters Ltd (either in the event of a takeover or otherwise)

(together, **Liquidity Events**), that Lender would be owed the Bonus Payment, the amounts of which are set out in the following paragraph.

Security Matters Israel is only required to commence paying a Bonus Payment once the Company has made a Cumulative Compensation to a Lender of at least ILS 3,075,000 (approximately AUD 1.2 million) (**Minimum Threshold**).

**'Cumulative Compensation'** means the total aggregate compensation provided under Liquidity Events.

Once a Lender has received the Minimum Threshold, the Company is required to commence paying the Bonus Payments from any further Cumulative Compensation. The Company must pay, in fulfilment of the Bonus Payment, 50% of any further Cumulative Compensation over and above the Minimum Threshold.

There is no time limit to pay the Bonus Payments. Once the Company has paid each Bonus Payment in its entirety (i.e. the cap of ILS 3,000,000 has been paid to each Lender), then the Company has fulfilled its obligations. Any further distributions thereafter will be distributed pro rata amongst all shareholders of the Company.



These Bonus Payments are governed under the laws of Israel.

## 2. Working Examples

Set out below are working examples of the two Liquidity Events that would result in Cumulative Compensation reaching the Minimum Threshold and a Bonus Payment being paid by the Company to each Lender.

In the two examples provided below, each Liquidity Event is set out separately. However in practice, the Cumulative Compensation paid to the Lender may be by way of a combination of receiving dividend payments and a sell down of shares.

All dollar amounts are in Australian Dollars unless otherwise disclosed.

Particulars	Amounts
Shares of Kibbutz Ketura <i>(being the total shares controlled by Ed Hofland, see section 6.9, page 56 of the Replacement Prospectus)</i>	10,668,099 (10.94%)
Shares of Degania A Business Agricultural Cooperative Society Ltd <i>(being the total shares controlled by Amir Bader, see section 6.9, page 56 of the Replacement Prospectus)</i>	10,374,617 (10.64%)
Exchange Rate (AUD to ILS)	2.61 (as at 2 October 2018)
Minimum Threshold per Lender	AUD 1,178,161
Total Bonus Payment per Lender	AUD 1,149,425
Total Shares following the IPO	97,500,000

**EXAMPLE 1: DIVIDEND PAYMENT TO LENDERS BY COMPANY**

Particulars	Year 1 (\$)	Year 2 (\$)	Year 3 (\$)	Year 4 (\$)	Year 5 (\$)	Year 6 (\$)	Year 7 (\$)
Total dividends by the Company	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Kibbutz Ketura compensation from dividends	547,082	547,082	547,082	547,082	547,082	547,082	547,082
Kibbutz Degania compensation from dividends	532,032	532,032	532,032	532,032	532,032	532,032	532,032
Kibbutz Ketura Cumulative Compensation	547,082	1,094,164	1,641,246	2,188,328	2,735,410	3,282,492	3,829,574
Kibbutz Degania Cumulative Compensation	532,032	1,064,063	1,596,095	2,128,126	2,660,158	3,192,190	3,724,221
Kibbutz Ketura Compensation above Minimum Threshold	-	-	463,085	1,010,167	1,557,249	2,104,331	2,651,413
Kibbutz Degania Compensation above Minimum Threshold	-	-	417,934	949,966	1,481,997	2,014,029	2,546,060
Kibbutz Ketura Bonus Payment	-	-	<b>231,543</b>	<b>505,084</b>	<b>778,625</b>	<b>1,052,166</b>	<b>1,149,425</b>
Kibbutz Degania Bonus Payment	-	-	<b>208,967</b>	<b>474,983</b>	<b>740,999</b>	<b>1,007,014</b>	<b>1,149,425</b>

As set out above, a Bonus Payment is dependent on the total dividends paid by Security Matters (i.e. the first row) and each Lender's shareholding in Security Matters at the particular time in which they received dividends. These calculations have assumed that each Lender maintains its current shareholding in the Company (i.e. each Lender has neither increased nor decreased its shareholding).

Assuming a total dividend is paid to all shareholders of Security Matters Limited each year of AUD 5,000,000 commencing on Year 1, Security Matters will be required to start paying a Bonus Payment on and from Year 3.

Under this scenario, total dividends required to be paid by Security Matters to all shareholders in order to commence the Bonus Payment is approximately AUD 11 million.



## EXAMPLE 2: SALE OF SHARES BY LENDER

Particulars	\$0.20 per Share	\$0.50 per Share	\$1.00 per Share
Kibbuta Ketura compensation from Sale of Shares	2,133,620	5,334,050	10,668,099
Kibbutz Degania compensation from Sale of Shares	2,074,923	5,187,308	10,374,617
Kibbutz Ketura Compensation above Minimum Threshold	955,459	4,155,889	9,489,938
Kibbutz Degania Compensation above Minimum Threshold	896,762	4,009,147	9,196,456
Kibbutz Ketura Bonus Payment	<b>477,729</b>	<b>1,149,425</b>	<b>1,149,425</b>
Kibbutz Degania Bonus Payment	<b>448,381</b>	<b>1,149,425</b>	<b>1,149,425</b>

Note that a Bonus Payment is dependent on the number of Shares sold down by that Lender and the price per Share at which those Shares were sold.

We have provided scenarios on which a Bonus Payment would be paid by the Company if the price per Share was \$0.20, \$0.50 and \$1.00 for each Share sold by a Lender.

This example does not take into account the potential for multiple dealings by a Lender of its Shares (and at various prices per dealing).