

Appendix 4E

Preliminary final report

1. Details of the reporting period and the previous corresponding period.

Name of Entity	Security Matters Limited (“the Company”)
ABN	78 626 192 998
Reporting Period	31 December 2018
Previous Corresponding Period	31 December 2017

2. Results for announcement to the market

	12 months ended Current Period US\$	12 months ended Previous Period US\$	Increase/ (decrease) %	Amount change US\$
Revenues from ordinary activities	40,382	6,114	560%	34,268
Loss from ordinary activities after tax attributable to members	(4,296,235)	(3,053,046)	41%	(1,243,190)
Net loss for the period attributable to members	(4,296,235)	(3,053,046)	41%	(1,243,190)

Comparisons to the previous corresponding period are comparisons to historical financial information extracted from Security Matters Ltd (Israel) for the year ended 31 December 2017.

Dividend paid or reinvested

No dividends have been declared or are payable for the year ended 31 December 2018.

Accounting Standards for foreign entities

The financial information for the Company and its foreign subsidiary (“the group”) were prepared in accordance with International Financial Reporting Standards.

Status of the audit

The financial statements in the preliminary final report are in the process of being audited.

Review of operations

Loss for the period totalled \$4,296,235 compared to a loss of \$3,053,046 in 2017.

The increase in expenses during the current period is mainly due to increase in General and Administrative costs and Legal and consultants’ expense as a result of listing on the ASX during the year and starting operation in Australia. In addition, share based compensation costs increased, as well as Research and Development costs.

The preliminary financial report for the year ended 31 December 2018 is attached.

3. Net tangible assets per security

	2018 \$	2017 \$
Net tangible asset backing per ordinary security	0.018	(0.099)

The denominator for the net tangible asset calculation at 31 December 2017 has been adjusted to reflect the capital reorganisation. The number of shares outstanding for the year ended 31 December 2018 is based on the number of Security Matters Limited shares on issue as at 31 December 2018.

4. Details of entities over which control has been gained or lost during the period

Name of entity (or group of entities)	Security Matters Ltd. (Israel)
Date control gained	5/10/18
Contribution of such entities to the reporting entity's loss from ordinary activities during the period (where material)	3,042,812
Consolidated profit/(loss) from ordinary activities of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)	N/A

On 5 October 2018, Security Matters Limited completed the acquisition of 100% of the issued capital of Security Matters Ltd, an Israeli company that owns and has commenced commercialising the technology to permanently and irrevocably “mark” any object either solid, liquid or gas, allowing identification, proof of authenticity, tracking supply chain movements and quality assurance. The acquisition of Security Matters Ltd (Israel) has been accounted for as a capital re-organisation rather than a business combination under the Australian Accounting Standards. As such, the historical financial information of the Company will be presented as a continuation of the pre-existing accounting values of the Israeli entity Security Matters Ltd.

5. Details of associates and joint venture entities

N/A

6. 2019 Annual General Meeting

Security Matters Limited advises that its Annual General Meeting will be held on Wednesday 15 May 2019. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to the ASX immediately after dispatch

7. Consolidated statement of profit or loss and other comprehensive income

		USD	USD
	<u>Note</u>	<u>2018</u>	<u>2017</u>
Revenue		40,382	6,114
Cost of sales		(37,717)	(3,007)
Gross profit		2,665	3,107
Research and development expenses		(1,227,357)	(844,580)
Share based compensation		(1,324,384)	(719,468)
Selling and marketing expenses		(18,575)	(16,432)
Depreciation and amortization		(113,137)	(60,945)
General and administrative expenses		(823,083)	(327,964)
Legal and consultants expenses		(487,222)	(113,004)
Change in fair value of convertible notes	[4]	(328,312)	(545,306)
Finance expenses		(30,004)	(428,609)
Finance income		53,174	156
Loss before income tax		(4,296,235)	(3,053,046)
Taxes on income		--	--
Loss after income tax		(4,296,235)	(3,053,046)
Other comprehensive income, net of tax			
Foreign currency translation reserve		(31,925)	--
Total comprehensive Income		(4,328,160)	(3,053,046)

The above Consolidated Statement of Profit or Loss and Other Comprehensive income should be read in conjunction with the accompanying notes

8. Consolidated statement of financial position

	<u>Note</u>	USD <u>2018</u>	USD <u>2017</u>
<u>Current Assets</u>			
Cash and cash equivalents		2,350,084	10,665
Other receivables		204,668	162,979
Total Current Assets		2,554,752	173,644
<u>Non-Current Assets</u>			
Property and equipment		309,787	360,499
Intangible assets	[5]	1,084,601	779,051
Total non-current assets		1,394,388	1,139,550
Total assets		3,949,140	1,313,194
<u>Current Liabilities</u>			
Trade payables		280,121	391,489
Amounts owed to related parties		7,065	16,113
Other payables		275,076	335,571
Borrowings		266,809	72,000
Convertible notes	[4]	--	3,586,428
Total current liabilities		829,071	4,401,601
<u>Non-Current Liabilities</u>			
Long term borrowings		173,426	476,024
Other Liabilities		93,110	91,690
Provisions		4,550	3,269
Total non-current liabilities		271,086	570,984
Total liabilities		1,100,157	4,972,585
Net Assets/(Liabilities)		2,848,983	(3,659,389)
<u>Equity</u>			
Issued capital		10,892,560	1,250,000
Share based payment reserve		2,043,853	719,468
Prepayment on account of shares		--	130,411
Foreign currency translation reserve		(31,925)	--
Accumulated losses		(10,055,505)	(5,759,270)
Total Equity		2,848,983	(3,659,389)

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

9. Consolidated statement of changes in equity

	USD	USD	USD	USD	USD	USD
	<u>Issued Capital</u>	<u>Share based payment reserve</u>	<u>Prepayments on account of shares</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated losses</u>	<u>Total Equity</u>
Balance at 1 January 2018	1,250,000	719,468	130,411	--	(5,759,270)	(3,659,389)
Comprehensive income						
Loss after income tax for the year	--	--	--	--	(4,296,235)	(4,296,235)
Other comprehensive loss for the year, net of tax	--	--	--	(31,925)	--	(31,925)
Total comprehensive income for the year	--	--	--	(31,925)	(4,296,235)	(4,328,160)
Transactions with owners in their capacity as owners						
Issuance of shares	5,030,871	--	(130,411)	--	--	4,900,460
Capital raising costs	(469,164)	--	--	--	--	(469,164)
Conversion of convertible notes	5,080,854	--	--	--	--	5,080,854
Share-based payments	--	1,324,384	--	--	--	1,324,384
Total transactions with owners in their capacity as owners	9,642,560	1,324,384	(130,411)	--	--	10,836,534
Balance at 31 December 2018	10,892,560	2,043,853	--	(31,925)	(10,055,505)	2,848,983

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

	USD	USD	USD	USD	USD	USD
	<u>Issued Capital</u>	<u>Share based payment reserve</u>	<u>Prepayments on account of shares</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at 1 January 2017	500,000	--	--	--	(2,706,224)	(2,206,224)
Comprehensive income						
Loss after income tax for the year	--	--	--	--	(3,053,046)	(3,053,046)
Total comprehensive income for the year	--	--	--	--	(3,053,046)	(3,053,046)
Transactions with owners in their capacity as owners						
Issuance of shares	750,000	--	--	--	--	750,000
Share based compensation	--	719,468	--	--	--	719,468
Prepayments on account of shares	--	--	130,411	--	--	130,411
Total transactions with owners in their capacity as owners	750,000	719,468	130,411	--	--	1,599,879
Balance at 31 December 2017	1,250,000	719,468	130,411	--	(5,759,270)	(3,659,389)

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

10. Consolidated Statement of Cashflows

		USD	USD
	Note	2018	2017
<u>Cash flows from operating activities:</u>			
Loss before tax for the year		(4,296,235)	(3,053,046)
Share based compensation		1,324,384	719,468
Change in fair value of convertible notes	[4]	328,312	545,306
Depreciation and amortization		112,367	60,945
Increase in other receivables		(41,690)	(48,689)
(Decrease)/increase in trade payables		(111,369)	67,151
(Decrease)/increase in amounts owed to related party		(9,048)	13,020
(Decrease)/increase in other payables		(60,495)	237,771
Increase/(decrease) in provision		1,281	(615)
Increase in other liabilities		1,420	18,300
Exchange rate differences (including translation)		(98,227)	298,971
Cash used in operating activities		(2,849,300)	(1,141,418)
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment		(37,395)	(14,625)
Purchase of intangible assets	[5]	(329,809)	(399,026)
Cash used in investing activities		(367,204)	(413,651)
<u>Cash flows from financing activities:</u>			
Proceeds from issue of convertible notes	[4]	1,191,329	576,868
Payments of borrowings to related parties		(66,702)	(28,843)
Proceeds from prepayments on account of shares		--	130,411
Proceeds from issuance of shares, net		4,431,296	750,000
Cash provided from financing activities		5,555,923	1,428,436
Increase/(decrease) in cash and cash equivalents		2,339,419	(126,634)
Cash and cash equivalents at beginning of year		10,665	137,299
Cash and cash equivalents at end of year		2,350,084	10,665

The above Consolidated Statement of Cashflows should be read in conjunction with the accompanying notes

11. Notes to the financial statements

1. Reporting entity

Security Matters Limited, ABN 78 626 192 998 (the “Company”) is an Australian public company which was incorporated on 16 May 2018.

The Company holds 100% of the shares in Security Matters Ltd. (Israeli Company number 515125771), that owns the technology (Licensed from the Israeli Atomic Agency) to permanently and irrevocably “mark” any object either solid, liquid or gas, allowing brand protection, authentication, supply chain integrity and quality assurance for countless products in virtually every industry.

2. Basis of preparation

a. Statements of compliance

These preliminary financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting standards and interpretations of the Australian Accounting Standard Board and in compliance with International Financial Reporting Standards.

b. Functional and presentation currency

The functional currency for Security Matters Ltd. (Israel) is USD and the functional currency for Security Matters Limited (Australia) is AUD. The presentation currency of the group is USD.

c. Financial position

The preliminary consolidated financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

3. IPO and capital re-organisation

Security Matters Limited was admitted to the official list of the ASX on October 11, 2018, and official quotation and trading of its shares commenced on October 15, 2018.

Security Matters Limited raised AU\$6,000,000 (US\$ 4,280,871) pursuant to the Offer under its replacement prospectus dated 7 August 2018 and its supplementary prospectus dated 10 August 2018 by issue of 30,000,000 fully paid ordinary shares at AU\$0.20 per share.

Prior to commencement of trading, Security Matters Limited completed the acquisition of 100% of the issued capital in Security Matters Ltd, an Israeli company that owns and has commenced commercialising the technology to permanently and irrevocably “mark” any object either solid, liquid or gas, allowing identification, proof of authenticity, tracking supply chain movements and quality assurance.

As part of the transaction the following securities were issued:

- **55,500,041** Shares to the Security Matters Ltd. (Israel) Shareholders and their nominees, in consideration for their shares in Security Matters Ltd. (Israel).
- **30,000,000** Shares to investors were issued with respect to the Offer at an issue price of AU\$0.20 per Share;
- **5,515,293** options to the Lead Manager (or their nominee/s) in consideration for the capital raised under the Offer;
- **11,999,959** Shares on conversion of convertible notes at AU\$0.14 per share;

- **8,805,864** options to certain Directors and employees (including to certain nominees) under the Company's employee share option plan (**ESOP**);
- **4,000,000** options to SMI Shareholders exercisable at AU\$0.20 expiring 5 years from the date of issue;
- **15,000,000** performance options to the Executive Directors (including to certain nominees) exercisable at AU\$0.20 expiring 5 years from the date of issue

4. Conversion of convertible notes

4.1 Loan from 2016 and 2017

In June 2016, Security Matters Ltd. (Israel) signed convertible note agreements with a number of investors, according to which Security Matters Ltd. (Israel) borrowed a total amount up to NIS 6 Million (US\$1,555,396). On January 2, 2017, Security Matters Ltd. (Israel) received an additional amount of NIS 2 Million (US\$576,868) from a third party under the same terms. The Convertible Notes do not bear interest.

The Convertible Notes were designated as a financial liability and presented at fair value with changes on fair value recognised in the Statement of Profit or Loss.

In February 2018, the Convertible Notes were converted to a total of 17,553 shares of Security Matters Ltd. (Israel).

4.2 Loan received in 2018

In May and June 2018, Security Matters Ltd. (Israel) signed additional Convertible Note Agreements (the "Second Convertible Notes") with a number of different investors, in which Security Matters Ltd. (Israel) borrowed a total amount of AUD 1.68 Million (US\$1,191,329). The Second Convertible Notes do not bear interest.

The Investors must convert the loan amount into capital shares at a PPS, equal to:

- 30% discount of the lowest price per share paid in the IPO.
- In an exit event (as defined in the Convertible Notes Agreement), 70% of the price per share 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.

All of the Second Convertible Notes were converted to 11,999,959 shares of the Company as part of the completion of the IPO. The Convertible Notes were presented at fair value with changes on fair value recognised in Statement of Profit or Loss.

	2018 US \$	2017 US \$
As at 1 January	3,586,428	2,221,995
Issue of convertible notes	1,191,329	576,868
Change in fair value of convertible notes	328,312	545,306
Exchange rate effect on value of convertible notes	(25,215)	242,260
Conversion of convertible notes to equity	(5,080,854)	--
As at 31 December	<u>--</u>	<u>3,586,428</u>

5. Intangible assets

Intangible assets include capitalised technology development costs as well as costs paid to legal and technical consultants. Intangible assets with a finite useful life are amortised over their estimated useful lives and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each year end. The amortisation period for the Company's intangible assets is as follows:

	<u>Period (years)</u>			
Patents	20			
Marking and Reading Technology	5			
Software and Blockchain	3			

Consolidated	<u>Patents</u>	<u>Marking and Reading Technology</u>	<u>Software and Blockchain</u>	<u>Total</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Net book value as at 1 January 2018	406,346	258,094	114,612	779,051
Additions - development costs	172,722	100,536	56,551	329,809
Amortisation	--	(24,259)	--	(24,259)
Net book value as at 31 December 2018	<u>579,068</u>	<u>334,370</u>	<u>171,163</u>	<u>1,084,601</u>
As at 31 December 2018				
Cost	579,068	371,102	171,163	1,121,333
Accumulated amortisation	--	(36,732)	--	(36,732)
Net book value as at 31 December 2018	<u>579,068</u>	<u>334,370</u>	<u>171,163</u>	<u>1,084,601</u>

	<u>Patents</u>	<u>Marking and Reading Technology</u>	<u>Software and Blockchain</u>	<u>Total</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Net book value as at 1 January 2017	254,479	131,818	6,200	392,497
Additions - development costs	151,866	138,748	108,412	399,026
Accumulated amortisation	--	(12,472)	--	(12,472)
Net book value as at 31 December 2017	<u>406,346</u>	<u>258,094</u>	<u>114,612</u>	<u>779,051</u>
As at 31 December 2017				
Cost	406,346	270,566	114,612	791,523
Accumulated amortisation	--	(12,472)	--	(12,472)
Net book value as at 31 December 2017	<u>406,346</u>	<u>258,094</u>	<u>114,612</u>	<u>779,051</u>

12. Highlights during the year

During the year ended 31 December 2018 the Company had the following highlights:

- (a) ASX listing- Security Matters Limited was admitted to the official list of the ASX on October 11, 2018, and official quotation and trading of its shares commenced on October 15, 2018 as described in note 3.
- (b) October 16- Acceptance to Intel Ingenuity Partner Program for innovative startups.
- (c) October 22- New patent application submitted for the detection of plastic particles in the agriculture industry.
- (d) November 21 – Security Matters to commence proof of concept project with Hazera Seeds Ltd.
- (e) December 3 – Security Matters secured project with Ambar, Israeli animal feed supplier.
- (f) December 17 – Security Matters signed agreement with Veridos, leading German identity solutions provider.