

26 April 2019

## Q1/2019 – Quarterly Activity Report

- **SMX** complete an oversubscribed placement, raising \$6.2 million before costs at \$0.50 per share to institutional and sophisticated investors
- **SMX** make three strategic senior appointments to the leadership team, including a Chief Technology Officer, significantly strengthening the Company's R&D capabilities
- Testing within the agriculture and electronics sectors complete, proving **SMX's** versatile marking technology can be fully integrated into any industry and commercial application
- Multiple proof of concept agreements signed with leading international companies including The Perth Mint and CliniCann - demonstrating **SMX's** commitment to delivering on its business model

**Security Matters Limited (ASX: **SMX**)** (Security Matters or the Company), a brand protection, supply chain integrity and blockchain technology company focussed on becoming the global record of physical goods, has today published its **Appendix 4C** for the past three months, ended 31 March 2019 and provides an overview of its operational highlights.

### Operational Overview

The Company has delivered strong progress during the March quarter and has developed a number of commercially meaningful relationships with several international organisations. Going into the second quarter and onwards, **SMX** remain committed to leveraging these relationships to secure further collaboration agreements and proof of concept projects in order to deliver on its business model and commercialise its technology.

### Financial Highlights

As announced on 1 April 2019, **SMX** successfully completed an oversubscribed share placement to institutional and sophisticated investors, raising \$6 million before costs – double the minimum subscription. The placement issued 12,410,000 fully paid ordinary shares at \$0.50 per share.

The placement was completed at 2.5 times the IPO price demonstrating strong growth and support from the market and enabling the Company to aggressively roll out its commercialisation strategy with large international companies.

### Research and Development

#### New appointments strengthen research team

The Company continued to grow and develop its R&D (research and development) capabilities with the appointment of a Chief Technology Officer and two highly experience PhD qualified Chemical Engineers.

New Chief Technology Officer, Mr Gal Shmueli brings more than 26 years of cyber research and development experience and is leading the development of **SMX's** blockchain and digital applications.

Dr Tehila Nahum, Head of Polymeric Solutions and Dr Hagit Sade, Head of Physical Chemistry Applications also join the leadership team bringing extensive industry experience and knowledge regarding the commercialisation of chemical products. Both Dr Nahum and Dr Sade are PhD graduates and also bring a wealth of knowledge in project management, research, technology, sector regulation and commercial science integration.

## **Phase II testing completes**

The Company successfully completed phase II testing of its seed integrity solution as part of existing ongoing studies with a world leading seed supplier.

Phase II tests involved [SMX](#) applying its pioneering marking technology into the seeds during the production process and tests confirmed that the markers have no negative impact on any of the seeds' key properties. The markers have also been proven to have no impact on any of the material processes involved in the growth, conservation and delivery of the seeds.

This achievement represents a milestone [for SMX](#) by further validating its technology and demonstrating its efficacy in commercial applications.

The commencement of phase III testing remains on track to begin in Q2 2019 and its completion will symbolise full commercialisation of [SMX's](#) agricultural offering.

## **Marking electronic components**

During the quarter, electronics testing in collaboration with a number of electronic manufacturers completed, creating a new global standard for the technology components, systems and devices industry. The testing successfully assessed [SMX's](#) ability to incorporate its mark and trace technology into existing manufacturing processes of large electronics manufacturers.

Completion of this testing further validates [SMX's](#) innovative technology and demonstrates how easily it can be incorporated into the existing systems and processes of any manufacturer across all sectors.

## **Commercial Operations**

### **Increasing Australian footprint with The Perth Mint**

Following the completion of internal tests, [SMX](#) signed an agreement with The Perth Mint to commence full-scale development of bespoke mark and trace technology to be used exclusively by The Perth Mint. The technology will be incorporated in The Perth Mint's gold value chain, from the mine, through the refining process and into final products.

This represents a significant achievement for the Company as the first commercial agreement to be signed with a leading Australian company.

### **Agreement secured with medicinal cannabis sector**

During the quarter, the Company signed an exclusive development and supply agreement with medicinal cannabis distributor, CliniCann. CliniCann was established by the founders of ASX-listed medicinal cannabis companies, AusCann Group, Zelda Therapeutics and CannPal Animal Therapeutics.

Under the terms of the agreement, [SMX](#) has obtained the exclusive rights to incorporate its revolutionary mark and trace technology into the primary and secondary packaging of all products manufactured by CliniCann's suppliers being distributed to all territories, excluding the USA.

Payments to [SMX](#) follow a SAAS revenue model and all costs incurred are the responsibility of CliniCann.

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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.

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Security Matters Limited

**ABN**

78626192998

**Quarter ended ("current quarter")**

31 March 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (3 months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	4	4
1.2 Payments for		
(a) research and development	-52	-52
(b) product manufacturing and operating costs	-2	-2
(c) advertising and marketing	-57	-57
(d) leased assets	-1	-1
(e) staff costs	-454	-454
(f) administration and corporate costs	-375	-375
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-5	-5
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other- GST and VAT return	132	132
<b>1.9 Net cash from / (used in) operating activities</b>	<b>-811</b>	<b>-811</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-36	-36
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
	(d) intellectual property	-131	-131
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>-167</b>	<b>-167</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-69	-69
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-69</b>	<b>-69</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,350	2,350
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-811	-811
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-167	-167
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-69	-69

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.5	Effect of movement in exchange rates on cash held	62	62
4.6	<b>Cash and cash equivalents at end of quarter</b>	<b>1,365</b>	<b>1,365</b>

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	1,365	2,350
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,365</b>	<b>2,350</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

Current quarter  
\$US'000

-39  
0

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

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**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

Current quarter  
\$US'000

-15  
-

- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

7.1 Payments for services by Kibbutz Ketura (substantial shareholder and related party to Ed Hofland) all at cost price: bookkeeping services, leased cars, rent, office costs.

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
8.1 Loan facilities	385	385
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Shareholder loan from Ketura and Degania (substantial shareholders of SMX and related parties of Ed Hofland and Amir Bader respectively) for ILS 1,400,000 (USD 385K at quarter end).

Terms of loan:

- 1) Annual interest rate of 4%.
- 2) Loan repayment in quarterly instalments of ILS 250,000 (~US\$ 69K)

The loan is described in more detail in the prospectus in section 10.16 and in a pre-quotation disclosure dated 11 October 2018.

9. <b>Estimated cash outflows for next quarter</b>	<b>\$US'000</b>
9.1 Research and development	-45
9.2 Product manufacturing and operating costs	-25
9.3 Advertising and marketing	-40
9.4 Leased assets	-5
9.5 Staff costs	-470
9.6 Administration and corporate costs	-200
9.7 Other (provide details if material)	
GST and VAT return	65
Purchase of property, plant and equipment	-55
Purchase of intellectual property and patent applications	-75
Capital raising costs	-300
Repayment of part of shareholder loan	-69
<b>9.8 Total estimated cash outflows</b>	<b>-1,219</b>

On 8/4/19 and 12/4/19 Security Matters issued an aggregate of 12,410,000 shares as part of a raise of A\$6.205 million (~US\$4.4 million). The expected direct capital raising costs in relation to the raise are US\$300K.

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

### 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.

Sign here:  .....  
(Company Secretary)

Date: 26 April 2019

Print name: Mark Licciardo

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.