

31 July 2019

## Q2/2019 – Quarterly Activity Report

- Strong progress made towards commercialisation during the quarter with a number of major R&D and commercial achievements
- Commercial agreement signed with leading diamond manufacturer, Trifecta Industries Inc. with \$500,000 investment to establish a new jointly owned company
- Commercial discussions commence with R3 and Ambar, demonstrating SMX's ability to partner with high calibre companies
- R&D achievements include the delivery of 500,000 library codes and second pilot project secured in the animal feed sector

**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 30<sup>th</sup> June 2019 and provides an overview of its operational highlights.

### Operational overview

During the June quarter, SMX delivered strong progress across all operations having cemented and expanded its relationship with high calibre partners and progressing the Company towards commercialisation.

The Research and Development team made a number of achievements with the delivery of 500,000 library codes and the lodgement of a USA patent. The Company also progressed commercially by signing an agreement with leading diamond manufacturer, Trifecta Industries Inc that included a \$500,000 investment commitment and commenced commercial discussions with animal feed producer, Ambar.

### Commercial Operations

#### Commercial agreement signed with world leading diamond manufacturer

In a milestone achievement, SMX signed a commercial agreement with leading diamond manufacturer Trifecta Industries Inc. to commercialise its mark and trace technology in the diamond industry, by establishing a new jointly owned company. The new company will be equally owned by SMX and Trifecta (50% each).

The commercial agreement confirms that Trifecta will invest \$500,000 in four tranches over approximately 10 months to establish the jointly owned company and commercialise and scale SMX's patented technology. The companies are currently working together to develop a bespoke marking solution and a commercial outcome is expected to be available mid 2020.

## Commercial discussions commence with Ambar

During the quarter, **SMX** progressed its relationship with leading Israeli animal feed producer, Ambar, following the completion of phase II testing.

Phase II tests involved **SMX** successfully incorporating its technology into a batch of Ambar's animal feed during the production process and concluded that the technology had no negative impact on the feed or any of its properties. Tests also confirmed that the markers can be successfully read using **SMX's** proprietary reader.

## Agreement signed to develop blockchain solution

The Company signed a collaboration agreement with enterprise blockchain software firm, R3 to develop a new blockchain application on R3's platform, Corda. R3 is a leading blockchain software company that works with over 300 partners across all sectors on its open-source blockchain platform.

**SMX** and R3 will collaborate and leverage **SMX's** disruptive technology to build a new bespoke blockchain program on Corda that works in tandem with **SMX's** offering and enhances its capabilities.

This partnership allows **SMX** to offer its existing clients a fully integrated end-to-end marks and trace solution for all physical goods and represents a step towards commercialisation of **SMX's** blockchain offering.

## Research and Development

### Technological milestone reached ahead of schedule

In a major technological achievement, **SMX** successfully created and delivered 500,000 library codes during the quarter, 10 times that outlined in its IPO prospectus.

A library code is the 'barcode' that contains customer and product specific information and enables the transfer of information onto the blockchain. Library codes are also used and adapted to provide bespoke authentication solutions to customers for their products.

The IPO prospectus, released in October 2018 outlined **SMX's** commitment to delivering 50,000 codes in 2019, this target was surpassed representing a significant achievement for the Research and Development team.

### Second project secured within animal feed sector

During the quarter, **SMX** secured its second proof of concept project within the animal feed sector by signing an agreement to commence testing with world leading animal nutrition company, Bluestar Adisseo Company ('Adisseo')

Adisseo is part of the Bluestar group and a global leader in the animal nutrition sector with an annual turnover of 1.36 billion Euros.

**SMX** and Adisseo have agreed to commence a pilot project to assess how **SMX's** technology can be incorporated into Adisseo's animal feed during the production process.

## US patent lodgement

SMX lodged a patent application during the quarter, demonstrating its commitment to delivering on its growth strategy by continuously developing and improving its technology.

The patent was lodged in the USA in April 2019 (File number: 62/833956) and pertained to technology the Company had specifically developed for use in the identification and classification of mined materials including minerals, stones and diamonds.

## Outlook

The Company has delivered strong progress during the second quarter of 2019 and developed a number of commercially meaningful relationships with several international organisations.

Going into the third 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.

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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.

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## 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")**

30 June 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (6 months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	22	26
1.2 Payments for		
(a) research and development	-102	-154
(b) product manufacturing and operating costs	-3	-5
(c) advertising and marketing	-60	-117
(d) leased assets	-6	-7
(e) staff costs	-477	-931
(f) administration and corporate costs	-369	-744
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	-4	-9
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other- GST and VAT return	33	165
<b>1.9 Net cash from / (used in) operating activities</b>	<b>-963</b>	<b>-1774</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-113	-149
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
(d) intellectual property	-127	-258
(e) other non-current assets	-	-
<b>2.2</b> Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.3</b> Cash flows from loans to other entities	-	-
<b>2.4</b> Dividends received (see note 3)	-	-
<b>2.5</b> Other (provide details if material)	-	-
<b>2.6</b> <b>Net cash from / (used in) investing activities</b>	<b>-240</b>	<b>-407</b>

<b>3. Cash flows from financing activities</b>		
<b>3.1</b> Proceeds from issues of shares	4,448	4,448
<b>3.2</b> Proceeds from issue of convertible notes	-	-
<b>3.3</b> Proceeds from exercise of share options	-	-
<b>3.4</b> Transaction costs related to issues of shares, convertible notes or options	-301	-301
<b>3.5</b> Proceeds from borrowings	-	-
<b>3.6</b> Repayment of borrowings	-	-69
<b>3.7</b> Transaction costs related to loans and borrowings	-	-
<b>3.8</b> Dividends paid	-	-
<b>3.9</b> Other (provide details if material)	-	-
<b>3.10</b> <b>Net cash from / (used in) financing activities</b>	<b>4,147</b>	<b>4,078</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
<b>4.1</b> Cash and cash equivalents at beginning of quarter/year to date	1,365	2,350
<b>4.2</b> Net cash from / (used in) operating activities (item 1.9 above)	-963	-1,774
<b>4.3</b> Net cash from / (used in) investing activities (item 2.6 above)	-240	-407
<b>4.4</b> Net cash from / (used in) financing activities (item 3.10 above)	4,147	4,078

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$US'000</b>	<b>Year to date (6 months) \$US'000</b>
4.5	Effect of movement in exchange rates on cash held	-80	-18
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>4,229</b>	<b>4,229</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$US'000</b>	<b>Previous quarter \$US'000</b>
5.1	Bank balances	4,229	1,365
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>4,229</b>	<b>1,365</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

<b>Current quarter \$US'000</b>
-36
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

<b>Current quarter \$US'000</b>
-12
-

- 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) all at cost price: bookkeeping services, leased cars, rent, office costs.
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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	393	393
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) for ILS 1,400,000 (USD 393K 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	-65
9.2 Product manufacturing and operating costs	-3
9.3 Advertising and marketing	-50
9.4 Leased assets	-5
9.5 Staff costs	-480
9.6 Administration and corporate costs	-250
9.7 Other (provide details if material)	
GST and VAT return	90
Purchase of property, plant and equipment	-35
Purchase of intellectual property and patent applications	-115
Repayment of part of shareholder loan	-138
<b>9.8 Total estimated cash outflows</b>	<b>-1,051</b>

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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:

  
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 (Company Secretary)

Date: 31 July 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.