

28 January 2021

Q4/2020 – Quarterly Activity Report

- SMX showed remarkable resilience in Q4, successfully raising additional capital, implementing its strategic initiatives, achieving key milestones, and continuing to launch innovative platforms. Demonstrating a firm commitment towards the commercialisation of its technology.
- In Q4 2020, SMX successfully raised a total of \$3.96m at a premium to the then current share price via private placements that were supported by new and existing sophisticated, institutional and professional investors, including \$760k by Psagot as part of its ESG investment portfolio.
- A commercial service contract was signed with trueGold Consortium in which SMX will receive over \$800k over a period of 12 months, as remuneration for its R&D work.
- SMX launched its commercial ready third generation 3.0 blockchain digital platform that will be a key enabler for value chain players across various industries to transition to the circular economy.
- SMX officially opened a Fashion Sustainability Competence Centre that targets fashion brands globally, enabling them to recycle their own merchandise (clothes, shoes, accessories including sunglasses) back into new high-quality materials and merchandise on a commercial scale.
- The proof-of-concept goals for the Supply Chain Integrity Project with Intel were successfully accomplished. SMX was able to prove its value added potential and benefits to Intel's Transparent Supply Chain, OEM credibility, Cyber hardware, and QA/QC use-cases.
- The International Bromine Council (BSEF) together with the North American Flame-Retardant Alliance (NAFRA), will adopt SMX's innovative technology to be deployed in whole value chains to improve compliance, traceability and circularity when it comes to brominated flame retardants, its applications and products.
- SMX appointed Ms Danit Cohen as its new CFO. She is a qualified chartered accountant bringing 20+ years' accounting, audit, finance and investment experience.

Security Matters Limited (ASX: SMX) (Security Matters or the Company), a company focused on digitising physical objects on the blockchain to enable a circular and closed loop economy, has today published its Appendix 4C for the three months ended 31 December 2020 and provides an overview of its operational highlights.

Corporate and Financial highlights

SMX delivered receipts from customers of US\$198,000 representing an 23% increase on the September quarter. This is the third consecutive quarter of organic growth.

Demonstrating its adaptability and resilience during the continuing global health crisis, SMX retained its operational cost reduction measures that it had adopted at the start of the year. SMX decreased its net cash used in operating activities by 4% to US\$897,000 for the last quarter, with a total operating cash outflows on the business activities described below totalling US\$1,213,000 which included

US\$255,000 research and development expenditure, staff costs of US\$535,000 and administration and corporate costs of US\$379,000. Payments to related parties totalled US\$108,000 including directors' remuneration of US\$105,000 and payments for bookkeeping services, rent and office costs of US\$3,000. Further details are included in the Appendix 4C that follows this activities report.

In Q4 2020, SMX successfully raised a total of \$3.96m at a premium via three private placements that was supported by new and existing sophisticated and professional investors.

In November, the Company raised.

- \$2.1 million, before costs, at \$0.38 per share, issuing 5,529,175 shares
- \$760,000 from Israel's largest institutional investor, Psagot Investment House, as part of its ESG investment portfolio strategy. The placement issued 2,000,000 shares at \$0.38 per share

The Company also issued 1 attaching option for every 2 ordinary shares subscribed for in the two placements and each attaching option has a three-year expiry and is exercisable at \$0.60. A further 325,000 options were issued to the broker to the issue on the same terms.

In December, the Company also raised a further \$1.1 million at a premium price of \$0.41 per share, issuing 2,683,627 fully paid ordinary shares. The Company also issued 1 attaching option for every 2 ordinary shares subscribed for in the placement and each attaching option has a three-year expiry and is exercisable at \$0.70.

During the quarter, SMX issued a total of 10,212,802 shares and all shares and options were listed utilising the Company's placement capacity under Listing Rule 7.1.

SMX raised a total of \$10.36 million during 2020.

This represents a significant achievement for the Company and provides SMX financial runway into 2022.

Appointment of new Chief Financial Officer

Ms. Danit Cohen was appointed as Chief Financial Officer. She is a qualified chartered accountant and bring over 20 years' experience. She has previously held a financial leadership role in a global company in the plastics industry. Ms. Cohen is highly experienced in controllership, audit, and leading finance and investing processes.

Operational and commercial highlights

SMX launches generation 3.0 blockchain platform.

SMX expanded the capabilities and flexibility of its third generation blockchain platform to enable the recording of value chain data from any production or value chain ecosystem from raw material to production to sorting, recycling, and reusing. SMX believes its generation 3.0 blockchain platform will be an essential part of operating in a sustainable circular economy – providing the platform for safe and secure revenue flow and transactions in order to reuse/recycle, buy, sell and communicate with value chain players both upstream and downstream.

This latest version of SMX's blockchain platform was built and developed in collaboration with R3 and Quantum Crowd. SMX fully owns the intellectual property as well as the two patents filed that SMX developed for its blockchain platform.

Commercial Service Contract signed with trueGold Consortium Pty Ltd

trueGold Consortium Pty Ltd is utilising SMX's unique molecular marking technology and 3.0 blockchain platform to launch what it believes to be, the world's first fully transparent mine-to-marketplace ESG focussed gold supply chain assurance solution.

trueGold has agreed to a commercial service contract whereby SMX will be remunerated \$800k over 12 months, for research and development carried out under a specified works program and schedule.

SMX opens a Fashion Sustainability Competence Centre

The global textile waste is expected to reach 148 million tons annually by 2030.¹ By utilising SMX's technology and digital twin blockchain 3.0 platform, it will enable participating fashion brands to reduce the amount of waste generated when their products (e.g. clothes, shoes, accessories including sunglasses) reach its end of life, by being able to recycle their own merchandise back into new high-quality materials and merchandise.

The Sustainability Competence Centre has been designed to provide transparent, cost-effective, and efficient access to SMX's 'plug and play' proprietary technology that has been specifically created for use within the fast, high volume and low-priced fashion industry.

SMX's technology is applicable across a wide range of materials including wool, EVA, TPU, ABS, PET, Vegan Leather, Polyesters and Cottons. And its applications encompass shoes, trainers, clothes, and accessories. Commencing in 2021, the Sustainability Competence Centre will be focusing its application on sunglasses, sports shoes (trainers) and t-shirts.

¹ <https://www.fashionrevolution.org/>

SMX completes Proof-of-Concept with Intel

The proof-of-concept demonstration conducted by SMX focused on creating a reliable and consistent Supply Chain Integrity solution for Intel's production to enable protection from the replacement, removal or repositioning of motherboards and their components.

SMX has successfully demonstrated its commercial and technological abilities to generate and secure a digital twin on the blockchain for electronic componentry. This next generation IoT2 global standard will have a major influence upstream and downstream in the electronics manufacturing value chain. Accelerating the adoption of a new global standard for technology integrity and sustainable circularity by marking electronic components.

SMX completes pilot project with the International Bromine Council (BSEF) and the North American Flame-Retardant Alliance (NAFRA)

Flame retardant chemicals are an important component in all manufactured products worldwide across a broad range of industries such as aviation, automotive, construction, electronics, textile, and telecommunications, since they protect human life and property.

SMX successfully demonstrated a unique marker system for three different commercially available brominated flame retardants (BFR), each formulated with either in PA 66, black HIPS or ABS plastics. The markers and therefore individual flame-retardant types were readily detected in the flame-retardant blends, plastic pellets and extruded colour coupons by SMX readers.

BSEF and NAFRA identified the commercial uses and potential for SMX's technology to be deployed in whole value chains to improve compliance, traceability, and circularity when it comes to flame retardants. SMX, BSEF and NAFRA will work collaboratively in 2021 to explore opportunities to scale chemical marking and blockchain platform for BFRs.

The results of this successful pilot project were confirmed in January 2021.

Outlook

SMX is in an excellent position to build upon the innovations and achievements accomplished to make strong progress in its strategic roadmap for the SMX technology to be adopted and scaled up across its strategic market segments globally.

With a balance sheet that has been significantly strengthened by recent rounds of private placement signalling a vote of confidence and valuable support from new and existing shareholders; along with a secondary private placement by Israel's largest institutional investor as part of its ESG investment portfolio – SMX will be able to maintain a strong momentum as it progresses ongoing pilot projects into commercial contracts for companies transitioning to the sustainable circular economy.

Against a global backdrop that remains uncertain, SMX is well prepared, determined, and confident in our ability to deliver positive commercial results in 2021.

--Ends--

By order of the Chief Executive Officer.

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.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Security Matters Limited

ABN

78 626 192 998

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	198	618
1.2 Payments for		
(a) research and development	-255	-782
(b) product manufacturing and operating costs	-	-10
(c) advertising and marketing	-40	-335
(d) leased assets	-3	-38
(e) staff costs	-535	-1,800
(f) administration and corporate costs	-379	-1,791
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	10
1.5 Interest and other costs of finance paid	-1	-10
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	116	354
1.9 Net cash from / (used in) operating activities	-897	-3,784
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-5	-5
(c) property, plant and equipment	-131	-332
(d) investments	-	-
(e) intellectual property	-115	-411
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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)	-	-
2.6	Net cash from / (used in) investing activities	-251	-748

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,872	6,953
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-14	-147
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-143
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,858	-6,663

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,427	1,708
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-897	-3,784
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-251	-748

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,858	6,663
4.5	Effect of movement in exchange rates on cash held	202	500
4.6	Cash and cash equivalents at end of period	4,339	4,339

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	4,339	2,427
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,339	2,427

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-108
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<p><i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i></p> <p>Payments to directors- US\$105K. Payments for services by Kibbutz Ketura (substantial shareholder) all at cost price: bookkeeping services, rent, office costs- US\$3K.</p>		

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	280	280
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	280	280
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>Shareholder loan from Ketura and Degania (substantial shareholders of SMX) for ILS 900,000 (USD 280K at quarter end). Terms of loan: 1) Annual interest rate of 4%. 2) Loan repayment in quarterly instalments of ILS 250,000 (~US\$ 77K) The loan is described in more detail in the prospectus in section 10.16 and in a pre-quotations disclosure dated 11 October 2018.</p>		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	-897
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,339
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,339
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.8
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/a	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/a	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/a

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date:28 January 2021.....

Authorised by:Chief Executive Officer.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg *Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.