

Security Matters Limited
 Appendix 4D
 Interim report for the half year ended 30 June 2021

1. Company details

Name of entity: Security Matters Limited

ABN: 78 626 192 998

Reporting period: Half year ended 30 June 2021

Previous reporting period: Half year ended 30 June 2020

2. Results for announcement to the market

			US\$
Revenues from ordinary activities	down	100% to	0
Loss from ordinary activities after tax attributable to the owners of Security Matters Limited	down	26% to	2,379,997
Loss for the half year attributable to the owners of Security Matters Limited	down	26% to	2,379,997

Dividend

No dividends have been declared or are payable for the period ended 30 June 2021.

Review of operations

The loss after tax for the half year period of the consolidated entity decreased to \$2,379,997 compared to a loss of \$3,203,853 in H1 2020. The decrease is mainly in share-based compensation (issuance of options) that was amounted to \$252K in H1 2021 comparing to \$1.1 million in H1 2020.

The increase in R&D and S&M expenses during the current period was due to the growth in activity.

The financial position of the consolidated entity continues to remain strong with a great level of liquidity.

3. Net tangible assets

	30 June 2021	31 December 2020
	US \$	US \$
Net tangible asset per security	0.034	0.029

4. Control gained or lost over entities

Not applicable.

5. Details of associates and joint venture entities

Name of entity (or group of entities)	Yahaloma BC1219747	True Gold Consortium Pty Ltd.	SMX Beverages Pty Ltd	SMX France
Date control gained	15/8/2019	4/6/2020	10/2/2020	11/6/2021
Contribution of such entities to the reporting entity's loss from ordinary activities during the period (where material)	N/A	N/A	N/A	N/A

6. Audit qualification or review

The interim financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

7. Attachments

The Interim Report for the half year ended 30 June 2021 of Security Matters Limited is attached.



Director: Haggai Alon
Date: 27 August 2021

SECURITY MATTERS LIMITED, ABN 78 626 192 998

INTERIM REPORT 30 JUNE 2021



SECURITY MATTERS LIMITED

INTERIM REPORT FOR THE HALF YEAR ENDED 30 JUNE 2021

SECURITY MATTERS LIMITED

TABLE OF CONTENTS

	<u>Page</u>
Directors' report	3-5
Auditor's independence declaration	6
Consolidated statement of profit or loss and other comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9-10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12-19
Directors' Declaration	20
Independent Auditor's review report	21-22

The amounts are stated in U.S dollars

INTERIM REPORT 30 JUNE 2021

DIRECTORS' REPORT

Directors' Report

Security Matters Limited ACN 626 192 998

The Directors present their report, together with the financial statements, of the consolidated entity (referred to as the 'consolidated entity' or the 'Group') consisting of Security Matters Limited (referred to as the 'Company' or 'SMX') and the entities it controlled during the half year ended 30 June 2021.

Significant company milestones

During the June half year, SMX delivered strong progress across all operations having cemented and expanded its relationship with high calibre partners which are propelling the Company towards commercialisation. Highlights for the half year:

- A unique patent was filed for the computerized Exchange Platform (EXP) for the distributed management of electronic certificates associated with transactions of plastic units - transforming digital certificates into Plastic Credits with a monetized trading value. This will enable the trading of the Plastic Credits in the open market.
- The launch of the 'SMX Plastic Circular Economy Online Unit' is a significant milestone. SMX's industrial scale conveyor belt system is ready to be integrated as part of any sorting or recycling facilities, for any size or type of plastic (e.g. rigid and flexible packaging).
- SMX successfully completed its 'Rubber Plantation to Factory' project with a Tier 1 tyre and conveyor belt manufacturer. Focusing on the traceability for origination, as well as facilitating the recycling of natural and synthetic rubber tyres.
- A collaborative partnership with the Israeli Cotton Board (ICB) was formed, enabling organic cotton growers to provide accurate proof of origination and authentication of their organic cotton fibres from farm to final product.
- There is a rapid progression of R&D activities with near term commercial opportunities relating to cocoa, palm oil and soybeans.

COVID-19 creates increasing demand for supply chain and accountability assurance technology creating a number of unique opportunities for SMX. On the other hand, global uncertainty and a global economic downturn of the economy may impact adoption rate of the technology.

Directors

Names of the Directors in office of the Company at any time during or since the end of the financial half year, update to the date of this report, are:

Name	Role	Appointed
Mr. Everardus (Ed) Hofland	Executive Chairman	24 July 2018
Ms. Jovanka Naumoska	Non-Executive Director	24 July 2018
Mr. Amir Bader	Non-Executive Director	24 July 2018
Ms. Kathryn Davies	Non-Executive Director	10 June 2020
Mr. Haggai Alon	Chief Executive Officer & Executive Director	24 July 2018

INTERIM REPORT 30 JUNE 2021

DIRECTORS' REPORT

Principal Activities

The principal continuing activities of the Group during the period were the development and the commercialisation of track and trace technology for a wide variety of industries.

The Group owns and has commenced commercialising the technology (Licensed from the Israeli Atomic Agency) to permanently and irrevocably “mark” any object either solid, liquid or gas, allowing identification, circularity, proof of authenticity, tracking supply chain movements and quality assurance for countless products in virtually every industry.

Security Matters' vision is to become the global record for physical goods through its unique technology for asset tracking and its ability to create a “Physical to Digital Twin”.

Security Matters' technology comprises a chemical-based hidden "barcode" system, alongside a unique “reader” to identify these codes, and a blockchain record to store and protect ownership data. Security Matters offers a B2B, “white-label” solution that serves market leaders' needs for authentication, supply chain integrity and quality assurance.

Main sectors of activity for 2021 are: circular economy, plastics & rubber, gold, fashion sustainability center, electronics, precious stones, minerals and agriculture.

Significant changes in state of affairs

During H1 2021 the Company issued a total of 15,567,971 shares in a placement of shares at a price per share of A\$0.20- 0.3655 (US\$0.16-0.27 per share).

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Dividend paid or recommended

No dividends were paid or declared during the financial period.

Review of operations

The loss for the period amounted to \$2,379,997 compared to a loss of \$3,203,853 in the half year ended 30 June 2020.

During the half year the Company recorded Receipts and Receivables from Proof of Concept projects (POC's) and paid pilots of \$531,983. The Company treated the funds received from POC's and paid pilots as a reduction of R&D costs and not as revenues.

The decrease in G&A expenses, due to a large amount of share based compensation (issuance of options) that was issued in H1 2020, mainly to strategic business development advisors.

The increase in R&D and S&M expenses during the current period was due to the growth in activity.

These results are expected for a young technology company that requires intensive R&D and business development efforts.

The Company targets leading brands and manufacturers (instead of targeting direct consumers) in order to create a new market standard for circular economy, sustainability, brand authentication and supply chain integrity.

The Company has two main features of its business model:

- (i) The Company is a business to business company; and
- (ii) The Company offers a ‘white label’ solution.

INTERIM REPORT 30 JUNE 2021

DIRECTORS' REPORT

Events after the reporting period

No significant events have occurred since the reporting date.

Auditor's independence declaration

The Auditor's independence declaration for the period ended 30 June 2021 has been received and can be found on page 5 of the financial report.

The Directors have been given the declarations required by s307C of the Corporations Act 2001. This Directors' report is signed in accordance with a resolution of the Board of Directors pursuant to section s303(3) of the Corporations Act 2001.

A handwritten signature in blue ink, appearing to read "HAGGAI ALON", written over a horizontal line.

Director: Haggai Alon


Date: 27 August 2021

DECLARATION OF INDEPENDENCE BY TIM FAIRCLOUGH TO THE DIRECTORS OF SECURITY MATTERS LIMITED

As lead auditor for the review of Security Matters Limited for the half-year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Security Matters Limited and the entities it controlled during the period.



Tim Fairclough
Director

BDO Audit Pty Ltd

Melbourne, 27 August 2021

INTERIM REPORT 30 JUNE 2021

 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
 INCOME FOR THE PERIOD ENDED 30 JUNE 2021

	30 June 2021	30 June 2020
	US\$	US\$
<u>Note</u>		
Revenue	-	4,374
Cost of sales	-	(4,936)
Gross (loss) profit	-	(562)
Research and development expenses	(885,035)	(798,791)
Selling and marketing expenses	(197,342)	(78,646)
General and administrative expenses	(1,337,836)	(2,368,136)
Finance expenses	(5,305)	(3,382)
Finance income	45,521	45,664
Loss before income tax	(2,379,997)	(3,203,853)
Income tax	-	-
Loss after income tax	(2,379,997)	(3,203,853)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation reserve	(178,740)	120,540
Total comprehensive income	(2,558,737)	(3,083,313)
Loss per share attributable to owners of the Company	(0.02)	(0.03)
[4]		
Diluted loss per share attributable to owners of the Company	(0.02)	(0.03)
[4]		

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

INTERIM REPORT 30 JUNE 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

		30 June 2021	31 December 2020
	<u>Note</u>	US\$	US\$
<u>Current Assets</u>			
Cash and cash equivalents		5,259,712	4,340,733
Trade receivables		-	6,346
Other receivables		776,218	438,605
Total Current Assets		6,035,930	4,785,684
<u>Non-Current Assets</u>			
Property and equipment		917,158	950,991
Intangible assets		2,897,550	2,100,807
Investment in joint venture	[8]	248,272	248,272
Total non-current assets		4,062,980	3,300,070
Total assets		10,098,910	8,085,754
<u>Current Liabilities</u>			
Trade payables		465,297	515,041
Lease liability short term		43,766	52,650
Other payables		493,655	553,252
Borrowings from related parties	[5]	276,074	279,939
Total current liabilities		1,278,792	1,400,882
<u>Non-Current Liabilities</u>			
Other Liabilities		88,650	88,990
Lease liability long term		460,929	485,155
Total non-current liabilities		549,579	574,145
Total liabilities		1,828,371	1,975,027
Net Assets		8,270,539	6,110,727
<u>Equity</u>			
Issued capital	[6]	26,342,872	21,880,805
Share based payment reserve	[7]	4,556,351	4,299,869
Foreign currency translation reserve		95,847	274,587
Accumulated losses		(22,724,531)	(20,344,534)
Total Equity		8,270,539	6,110,727

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

INTERIM REPORT 30 JUNE 2021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2021

	<u>Issued Capital</u>	<u>Share based payment reserve</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2021	21,880,805	4,299,869	274,587	(20,344,534)	6,110,727
Loss after income tax for the year	--	--	--	(2,379,997)	(2,379,997)
Other comprehensive expenses for the year, net of tax	--	--	(178,740)	--	(178,740)
Total comprehensive income (loss) for the year	--	--	(178,740)	(2,379,997)	(2,558,737)
Transactions with owners in their capacity as owners					
Issuance of shares	4,164,894	--	--	--	4,164,894
Capital raising costs	(31,465)	--	--	--	(31,465)
Share based compensation	328,638	256,482	--	--	585,120
Total transactions with owners in their capacity as owners	4,462,067	256,482	--	--	4,718,549
Balance at 30 June 2021	26,342,872	4,556,351	95,847	(22,724,531)	8,270,539

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

INTERIM REPORT 30 JUNE 2021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2021

	<u>Issued Capital</u>	<u>Share based payment reserve</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2020	14,987,577	2,370,145	(113,743)	(14,323,519)	2,920,460
Loss after income tax for the year	--	--	--	(3,203,853)	(3,203,853)
Other comprehensive income for the year, net of tax	--	--	120,540	--	120,540
Total comprehensive loss for the year	--	--	120,540	(3,203,853)	(3,083,313)
Transactions with owners in their capacity as owners					
Issuance of shares	4,080,942	--	--	--	4,080,942
Capital raising costs	(131,149)	--	--	--	(131,149)
Share based compensation	35,881	1,093,004	--	--	1,128,885
Total transactions with owners in their capacity as owners	3,985,674	1,093,004	--	--	5,078,678
Balance at 30 June 2020	18,973,251	3,463,149	6,797	(17,527,372)	4,915,825

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

INTERIM REPORT 30 JUNE 2021

CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE PERIOD ENDED 30 JUNE 2021

	30 June 2021	30 June 2020
	US\$	US\$
<u>Cash flows from operating activities:</u>		
Loss before tax for the half year	(2,379,997)	(3,203,853)
Share based compensation	256,482	1,128,885
Depreciation and amortization	138,457	91,822
Increase in other receivables	(337,613)	(34,742)
Decrease in Trade receivables	6,346	--
(Decrease) /increase in trade payables	(59,597)	67,670
Decrease in other payables	(49,744)	(108,159)
(Decrease)/increase in lease liability	(33,110)	1,005
(Decrease)/increase in other liabilities	(340)	9,188
Cash used in operating activities	(2,459,116)	(2,048,184)
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(90,803)	(88,787)
Capitalisation of R&D expenses	(810,564)	(125,489)
Cash used in investing activities	(901,367)	(214,276)
<u>Cash flows from financing activities:</u>		
Payments of borrowings to related parties	-	(144,259)
Proceeds from issuance of shares, net	4,462,067	3,949,792
Cash provided from financing activities	4,462,067	3,805,533
Increase in cash and cash equivalents	1,101,584	1,543,073
Cash and cash equivalents at beginning of period	4,340,733	1,707,768
Exchange rate differences (including translation)	(182,605)	119,375
Cash and cash equivalents at end of period	5,259,712	3,370,216

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

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1 - GENERAL:**

The financial statements cover Security Matters Limited as a Group consisting of Security Matters Limited and the entities it controlled at the end of or during the financial period. The financial statements are presented in US Dollars, which is Security Matters Limited's presentation currency.

The functional currency of Security Matters Limited (Australia) is Australian Dollars. The functional currency of Security Matters Ltd (Israel) is US Dollars.

Security Matters Limited is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The Financial Statements were authorised for issue on 27 August 2021 by the Directors of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

These general purpose financial statements for the interim half-year reporting period ended 30 June 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected financial assets and financial liabilities.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2020 annual financial report for the financial year ended 31 December 2020.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Change in accounting policy

The company adopted the presentation of expenses using the by function method, instead of the by nature method used previously. As such the comparative information has been reclassified for consistency.

Going concern

The financial report has 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.

The Group has incurred an operating loss after tax for the period ended 30 June 2021 of \$2,379,997 (30 June 2020: loss \$3,203,853). Net cash outflows for operating activities for the current period totalled \$2,130,478 (30 June 2020: \$2,048,184). This is expected for a young technology company and is part of its ordinary life-cycle.

As of 30 June 2021, the Group had cash on hand of \$5,259,712. Management have prepared a cash flow forecast, based on which the group has sufficient funds available to meet its commitments for at least twelve months from the date of signing this report, and the directors have confidence in the company's strong track record of raising capital.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The forecast was prepared while taking into consideration the uncertainty created by the full impact of COVID-19 on the economy. COVID-19 creates increasing demand for supply chain and accountability assurance technology creating a number of unique opportunities for SMX. On the other hand, global uncertainty and a global economic downturn of the economy may impact adoption rate of the technology.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's CEO to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues.

Management will also consider other factors in determining operating segments such as the existence of line managers and the level of segment information presented to the Chairman of the Board of Directors. During the year the Company only operated in one segment, which is to further the development and commercialisation of track and trace technology for a wide variety of industries.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

Amortisation of capitalized development costs and determination of useful life

Intangible assets include 3 assets: Marking & Reading Technology, Patents, and Software & Blockchain Technology. Intangible assets are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. the consolidated entity has not yet begun amortisation for its patents as the patent applications have not yet completed their registration process and for its software and blockchain as the development of these is not completed yet. As at June 30 2021 part of the Marking and Reading Technology is amortised, and it is expected that other assets will begin amortization during 2022.

Share based payments

The Company has a share based remuneration scheme for employees. The fair value of share options is estimated by using the Black & Scholes model, which was derived to model the value of the firm's equity over time. The simulation model was designed to take into account the unique terms and conditions of the performance shares and share options, as well as the capital structure of the firm and the volatility of its assets, on the date of grant based on certain assumptions. Those conditions are described in the share based compensation note and include, among others, the dividend growth rate, expected share price volatility and expected life of the options. The fair value of the equity settled options granted is charged to statement of profit or loss over the vesting period of each tranche and the credit is taken to equity, based on the consolidated entity's estimate of shares that will eventually vest.

INTERIM REPORT 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE 4 - EARNINGS PER SHARE

	30 June 2021	30 June 2020
	US\$	US\$
<i>Loss per share for profit</i>		
Loss after income tax attributable to the owners of Security Matters Limited	(2,379,997)	(3,203,853)
Basic & diluted loss per share	(0.02)	(0.03)
<i>Weighted average number of ordinary shares</i>		
Weighted average number of ordinary shares used in calculating basic earnings per share	143,539,627	121,140,436
Weighted average number of ordinary shares used in calculating diluted earnings per share	143,539,627	121,140,436

49,964,487 Options were not included in the number of weighted average ordinary shares used to calculate diluted earnings per share because their impact would be anti-dilutive

NOTE 5 - BORROWINGS FROM RELATED PARTIES:

In 2015, the Group signed an agreement to receive a loan of ILS 2 Million (US\$ 512,558 at 2015) from its major shareholders on back-to-back terms from a third party (the Kamea Fund). The loan bears an interest at an annual rate of 4% and was expected to be repaid in eight quarterly equal installments commencing December 31, 2016.

In December 2017, the Group reached an agreement with its shareholders according to which the loan will be repaid in eight equal quarterly instalments commencing November 1, 2018.

	30 June 2021	31 December 2020
	US\$	US\$
Balance at 1 January	279,939	405,093
Payment of borrowings	-	(144,258)
Exchange rate differences	(3,865)	19,104
Balance at end of period	276,074	279,939

INTERIM REPORT 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE 5 - BORROWINGS FROM RELATED PARTIES (CONTINUED):

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 US\$ 920K) 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 US\$ 943K) (**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. The Bonus Payments were examined by an external valuator and based on management's projections and insights it has estimated that the value of the Lender's Bonus is estimated at zero as of 31 December 2020. As of 30 June 2021, there is no change in management projections and management has estimated the value of the Lender's Bonus at zero.

INTERIM REPORT 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE 6 – EQUITY- ISSUED CAPITAL:

During the half year the Company issued a total of 15,567,971 in a placement of shares at a price per share of A\$0.2-0.3655 (US\$0.16-0.27 per share); 83,503 shares were issued for directors of the company at a price per share of A\$0.3655 (US\$0.27). The total of 1,300,000 options were exercised to shares at an exercise price per share of A\$0.30 (US\$0.23)

Movement in issued capital within the period:

	30 June 2021	31 December 2020	30 June 2021	31 December 2020
	Shares	Shares	US\$	US\$
Ordinary shares- fully paid	156,159,014	139,291,043	26,342,872	21,880,805
	Date	Number of shares	Unit Price US\$	Share Capital US\$
Balance as at 1 January 2021	01/01/2021	139,291,043		21,880,805
Placement of shares	03/01/2021	39,475	-	-
Options exercise	03/02/2021	300,000	0.23	68,578
Options exercise	10/02/2021	300,000	0.23	69,568
Options exercise	19/02/2021	300,000	0.23	70,250
Placement of shares	27/04/2021	174,744	0.16	27,192
Placement of shares	07/05/2021	83,503	0.27	23,244
Option exercise	06/05/2017	200,000	0.23	46,530
Placement of shares	17/05/2021	11,940,287	0.27	3,238,535
Placement of shares	21/05/2021	380,162	0.27	103,207
Option exercise	20/05/2021	200,000	0.23	46,518
Placement of shares	03/06/2021	1,842,857	0.27	499,955
Placement of shares	14/06/2021	1,106,943	0.27	299,955
Capital raising costs				(31,465)
			--	
		156,159,014		26,342,872

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

INTERIM REPORT 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE 7 – RESERVES

Consolidated	30 June 2021	31 December 2020
	US\$	US\$
Share based payment reserve	4,556,351	4,299,869
Foreign currency translation reserve	95,847	274,587
	4,652,198	4,574,456
<i>Share based compensation</i>		

The Company completed the following share-based payment transactions during the half year:

	Number of Options	US\$
Opening balance at 1 January 2021	47,864,487	4,299,869
Issue of Options during the half-year	2,100,000	238,125
Amortisation of previously issued ESOP Options	-	18,357
Forfeit and exercise of Options	(1,374,744)	-
Closing balance at 30 June 2021	48,589,743	4,556,351

INTERIM REPORT 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE 8 – CONTROLLED ENTITIES & JOINT ARRANGEMENTS

The ultimate legal parent entity of the Group is Security Matters Limited, incorporated and domiciled in Australia. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in Note 2.

Controlled entity (including joint ventures)	Country of Incorporation	Percentage Owned 30 June 2021	Percentage Owned 31 December 2020
Security Matters Ltd	Israel	100%	100%
Security Matters France	France	100%	N/A
Yahaloma Technologies Inc.	Canada	50%	50%
True Gold Consortium Pty Ltd	Australia	46.5%	46.5%
SMX Beverages Pty Ltd	Australia	50%	50%

The proportion of ownership interest is equal to the proportion of voting power held.

Yahaloma Technologies Inc.

Yahaloma Technologies Inc. ("Yahaloma") is a private Canadian company equally held by Security Matters Limited and Trifecta Industries Inc., founded on August 15, 2019. Yahaloma has the exclusive rights and responsibility to commercialize the Security Matters group intellectual property in the area of diamonds or precious stone. The joint arrangement is a joint venture and the Company's interests in Yahaloma is accounted for using the equity method of accounting.

During the period ended 30 June 2021, Yahaloma has continued the development the SMX technology for the diamonds and precious stones sector. As at 30 June 2021, the carrying amount of the JV in Security Matters' accounts is \$213,957.

SMX Beverages Pty Ltd

On February 10, 2020 Security Matters Limited ("SMX") signed an agreement with Global BevCo Pty Ltd, an Australian company for the commercialization of Security Matters trace technology in the alcoholic beverages industry. Under the terms of the agreement, SMX and Global BevCo will establish a new private entity (SMX Beverages Pty or "SMX-B"), which will be equally held by the above two mentioned groups. The Company will have the exclusive rights and responsibility to commercialize the SMX intellectual property in the area of alcoholic beverages.

The joint arrangement is a joint venture and the Company's interests in its associate is accounted for using the equity method of accounting. Security Matters and Global BevCo are each committed to invest A\$50,000 as initial working capital for the entity. During the period SMX-B has not yet started its operations. As at 30 June 2021, the carrying amount of the JV in Security Matters' accounts is \$34,315 (A\$50,000).

INTERIM REPORT 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE 8 – CONTROLLED ENTITIES & JOINT ARRANGEMENTS (CONTINUED):

True Gold Consortium Pty Ltd

True Gold Consortium Pty Ltd. is an Australian entity that was founded by SMX on 4 June 2020. On July 2020, Security Matters Limited signed a shareholders agreement with W.A. Mint Pty Ltd. (a subsidiary of Gold Corp) and True Gold Consortium Pty Ltd. The contractual arrangement establishes each party's share in the profit or loss relating to the activities of the arrangement. The arrangement is a joint venture and the Company's interests in its associate is accounted for using the equity method of accounting.

True Gold Consortium Pty Ltd.'s goal is to establish an industry standard with the development of an innovative system that can mark (at a molecular level), track and trace gold bars and gold through every stage of the supply chain with blockchain technology, and R&D is continuing towards this goal.

Security Matters France

Security Matters France was founded in June 2021 for commercializing the group's activity in EU.

Joint operation	Principal place of business	Nature of activity
<u>SMX-BASF joint Development Agreement</u>	Israel and Germany	Develop solutions for plastic traceability and circularity

NOTE 9 – SUBSEQUENT EVENTS

No significant events have occurred since the reporting date.

INTERIM REPORT 30 JUNE 2021

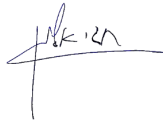
NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Security Matters Limited, the Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 7 to 19, are in accordance with the *Corporations Act 2001* and:
 - a. The Australian Accounting Standard AASB 134 'Interim Financial Reporting', Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2021 and of the performance for the period ended on that date of the Company;
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of Directors made pursuant to section 305(5)(a) of the *Corporations Act 2001*



Director

Haggai Alon

Dated this27..... day of ...August..... 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Security Matters Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Security Matters Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2021 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd

A handwritten version of the BDO logo, with the letters 'B', 'D', and 'O' written in a simple, blocky style.

A handwritten signature in cursive script that reads 'Tim Fairclough'.

Tim Fairclough
Director

Melbourne, 27 August 2021