

29 July 2022

Q2/2022 – Quarterly Activity Report

- SMX announces merger with Lionheart III Corp to form a combined NASDAQ entity expected to be valued at US\$360 million with a pre-money money valuation of SMX of US\$200 million.
- The merger completes the strategic review process conducted by Clearthink Capital LLC, who introduced SMX to a number of Special Purpose Acquisition Companies (SPACs) with a view to accelerating SMX’s technological applications and growth opportunities to maximise shareholder value in the Company.
- The total amount of invoices issued in H1 2022 reached US\$1,018K, an increase of 91% compared to US\$532K in H1 2021.
- SMX has signed a binding term sheet for a bridge loan of US\$3 million and is expecting the deal to close in the coming weeks.
- SMX received A\$828,240 through the issue of Convertible Notes to sophisticated and professional investors. Per the agreements, these Notes will be converted in the coming few weeks.

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, is delighted to provide an overview of its operational highlights for the three months ended 30 June 2022 (“Quarter”, “Reporting Period”) to accompany its Appendix 4C.

Corporate & Financial highlights

Financial

The total amount of invoices issued in H1 2022 reached US\$1,018K, an increase of 91% compared to US\$532K in H1 2021. The H1 2022 invoices issued reached 94% of the total amount of invoices issued for calendar 2021.

Receipts from customers in Q2 2022 totalled US\$188K, an increase of 21% compared to Q1 2022. Subsequent to quarter end, the Company received an additional US\$492K relating to H1 2022 invoices.

The remuneration paid to the Directors during the quarter was US\$8K.

During the quarter, the Company received commitments from sophisticated and professional investors to raise A\$828,240 through the issue of Convertible Notes (‘Notes’). Shares to be issued on

conversion of the Notes, will be issued out of existing capacity under ASX Listing Rule 7.1. Funds raised from the issue of the Notes will contribute towards working capital and support growth initiatives. At quarter end, the total amount of proceeds from the issue of convertible notes was US\$600K.

The significant increase in other costs during the quarter were mainly for legal, accounting and tax advisors related to the SPAC merger transaction.

Operational and Commercial highlights

SMX Merger with Lionheart III Corp

Subsequent to quarter end, the Company announced the merger with NASDAQ listed special purpose acquisition company (SPAC), Lionheart III Corp (LION) (refer ASX 26 July, 2022). The merger with LION is the result of an extensive strategic review conducted by Clearthink Capital LLC, with a view to accelerating SMX's technological applications and growth opportunities in markets that are supportive of blockchain technologies that enable and promote a circular and closed loop economy.

The total merger value of the transaction is estimated at US\$360 million, comprised of the following:

- US\$200 million pre-money value for SMX
- US\$126 million of cash in trust with the SPAC if no redemptions
- US\$31 million SPAC sponsor position

The merger transaction is anticipated to generate proceeds of up to approximately US\$116 million cash, assuming no redemptions by Lionheart's stockholders. These funds will be used by the combined entity to fund operations and support strategic growth opportunities.

At the closing of the merger transaction, SMX shareholders will own approximately 55.5% of the combined entity, assuming no redemption by Lionheart's public stockholders, and the merged entity will simultaneously list on NASDAQ.

The board of directors of SMX considers the merger transaction to be in the best interest of SMX shareholders and option holders and unanimously recommends that SMX shareholders and option holders vote in favour of the merger transaction, in the absence of a superior proposal and subject to an independent expert report concluding in the expert's report that the merger transaction is in the best interests of SMX shareholders and option holders.

It is currently anticipated that the merger transaction will close in the 4th quarter of calendar year 2022.

Haggai Alon, Founder and CEO, commented:

“SMX is thrilled to join Lionheart in our entry into the US public market. Together we will create a premier ESG company and a sustainable technology leader to transform global supply chains into intelligent ecosystems. SMX is revolutionizing the way that global brands operate their production line, from raw to reused/recycled materials to end-to-end traceability and marking technology. By giving materials a memory and tangibly linking parts of the value chain, SMX will enable multiple use and reuse of materials, where nothing is wasted. The roadmap ahead will be supported and driven by strong innovation and technology commercialization, while putting sustainability at the core of everything we do. We believe this will make SMX the enabler/de-facto industry standard.”

Outlook

During this time of continuing economic and health uncertainties, there is an ever-increasing ESG requirement for businesses and industries to adhere to, from various regulatory bodies, NGOs, stakeholders, shareholders, and the wider public community. With more global companies seeking to meet their ESG responsibilities as well as transition successfully to a closed loop circular economy, SMX is well resourced to scale its technology to enable global businesses to transition to a truly circular economy, where sustainability, transparency and traceability of origination are a key focus.

SMX will continue to build its resilience by strengthening its cost controls and balance sheet. The company will maintain a strategy focused on its key market segments and work towards accelerating the speed of adoption and commercialisation of its technology.

SMX will rely on the strong momentum, agility and capability of its unique technological and digital platform offering ESG solutions to its clients, allowing them to track and authenticate from raw material to finish product through every stage of the supply chain. In addition to being able to efficiently sort, to recycle and reuse materials at the product's end of life.

SMX will increase R&D activities with near term commercial opportunities relating to palm oil, cocoa and soybean.

--Ends--



By order of the Board.

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")

30 June, 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	188	344
1.2 Payments for		
(a) research and development	-116	-364
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-78	-165
(d) leased assets	-	-11
(e) staff costs	-680	-1,194
(f) administration and corporate costs	-308	-771
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	3
1.5 Interest and other costs of finance paid	-5	-9
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (VAT & GST returns)	73	295
1.9 Net cash from / (used in) operating activities	-925	-1,872
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-31	-172
(d) investments	-	-
(e) intellectual property	-223	-720
(f) other non-current assets	-	-319

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 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	-	-87
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-254	-1,298

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible securities	600	600
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities		-129
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-402	-535
3.10	Net cash from / (used in) financing activities	198	-64

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,950	4,170
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-925	-1,872
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-254	-1,298

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	198	-64
4.5	Effect of movement in exchange rates on cash held	-139	-106
4.6	Cash and cash equivalents at end of period	830	830

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	830	1,950
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)	830	1,950

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	11
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

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.

Payments to directors -US\$ 8K.

Payments for administrative services provided by Kibbutz Ketura (substantial shareholder) at cost price US\$ 3K.

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. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	165	165
7.2 Credit standby arrangements	-	-
7.3 Other (customers outstanding debt. US\$492K was paid in July, US\$561K expected to be paid by mid of August)	1,053	-
7.4 Total financing facilities	1,218	165
7.5 Unused financing facilities available at quarter end		1,053
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.		
Shareholder loan from Ketura and Degania (substantial shareholders of SMX) for ILS 577,000 (USD 165K at quarter end). Terms of loan: 1) Annual interest rate of 4%. 2) Loan repayment in quarterly instalments of ILS 250,000 (~US\$ 79K) The loan is described in more detail in the prospectus in section 10.16 and in a pre-quotations disclosure dated 11 October 2018.		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	-925
8.2 Cash and cash equivalents at quarter end (item 4.6)	830
8.3 Unused finance facilities available at quarter end (item 7.5)	1,053
8.4 Total available funding (item 8.2 + item 8.3)	1,883
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.04
<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: NA	
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: NA	

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: NA

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: 29 July 2022.....

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.