

7 September 2022

## H1 FY22 – Half Yearly Progress and Commercialisation Summary Activity Report

### Security Matters Limited Announces Merger with Lionheart III Corp

Combined NASDAQ entity expected to be valued at US\$360 million

**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 half year ended 30 June 2022 (“Half Year”, “Reporting Period”).

Market demand for improved sustainability practices has led to an increasing demand for supply chain and accountability assurance technology, creating a number of unique opportunities for SMX. Despite the current challenges and uncertainties of the global economic downturn, SMX remains well positioned as a company for the 21<sup>st</sup> century, enabling the transition to a closed loop circular economy, providing greater transparency and efficiency for the businesses of tomorrow.

### Significant company milestones

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

- The total amount of invoices issued in H1 2022 reached US\$1,020K, an increase of 92% compared to US\$532K in H1 2021.
- On July 26, 2022, the Company and Lionheart III Corp (“Lionheart”), a publicly traded special purpose acquisition company (SPAC), entered into a business combination agreement (“BCA”) and accompanying scheme implementation deed (“SID”) pursuant to which the Company will list on NASDAQ via a newly formed Irish company to be named “Empatan Public Limited Company” (Note 10 – Subsequent Events).
  - 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
- SMX successfully completed an industrial scale readiness trial in a facility marking recycled plastics, which will help SMX customers to identify evidence of 30% recycled plastic and the number of loop counts the plastic has gone through, making it easier and potentially cheaper [for manufacturers/recyclers] to comply with plastic packaging legislation.
- SMX expands its North American presence by joining NextCycle Michigan, an initiative aimed at transforming the recycling practices for one of the world’s biggest automotive industrial regions.
- SMX targeted the superfood industry after successfully developing the first product ensuring the provenance of oysters, providing an opportunity to add value in this large international market within the superfood industry.

- SMX appoints the previous Director General of the Israel National Cyber Directorate, Mr Yigal Unna, to the Company's Advisory Board.
- Subsequent to period end, SMX signed a binding term sheet for a bridge loan of US\$2.5 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.

## Principal Activities of SMX

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 2022 are: circular economy, plastics & rubber, gold, fashion sustainability center, electronics, precious stones, minerals and agriculture.

## Corporate & Financial highlights

### Financial

The total amount of invoices issued in H1 2022 reached US\$1,020K, an increase of 92% compared to US\$532K in H1 2021. The H1 2022 invoices issued reached 94% of the total amount of invoices issued for calendar 2021.

The remuneration paid to the Directors during the quarter was US\$71K.

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 increase in Research and Development and Sales and Marketing expenses during the period was due to the growth in activity.

## Operational and Commercial highlights

### SMX Merger with Lionheart III Corp

Subsequent to period 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 4<sup>th</sup> quarter of calendar year 2022.

This merger follows the SMX Board advising that ClearThink Capital LLC has been appointed to undertake a strategic review to assess options available to maximise shareholder value in the Company at the end of Q1. The review was aimed at identifying and assessing opportunities to accelerate growth in SMX's technological applications and offerings. The evaluation included a review of all feasible funding options as well as an assessment of potential markets that are supportive of new blockchain technologies to provide SMX opportunities to grow during its early-stage revenue period.

### **SMX successfully enables industrial scale 'three times loop' recycled content of plastics**

SMX announced the completion of a trial that tested the marking of recycled plastics. The study looked at the impact of gravimetric and volumetric feeding methods on final Post Consumer Recyclate (PCR) readings and was able to verify the accuracy and reproducibility of the markers in both methods.

The compounding master batch and extrusion processes of these trials were performed on a pilot scale in a fully commercial and industrial facility. The SMX team managed the process remotely and ensured the viability of industrial scale adoption.

Following these trials, it was found that:

- In all cases the quantification of the PCR was successful
- The layers configuration didn't affect the accuracy of the PCR reading
- Addition of pigments didn't affect our detectability
- Regrinding material has no effect on detectability
- No sensitivity to thickness variation

This successful trial enables companies which use SMX's automated certifying and auditing technology with the ability to not only promote their operations as sustainable and environmentally friendly, but also potentially avoid the increased costs associated with human/manual-paper auditing errors.

This system follows SMX's ongoing developments in the Plastics department, which includes joining NextCycle Michigan, the recent release of SMX Generation 2.0 online unit and being awarded the Frost & Sullivan 2021 Global Waste Management & Recycling Digitalization Technology Innovation

Leadership Award and the successful implementation of the Company's technology into BASF's ReciChain project in North America in 2020.

Effective 1 April 2022, the UK became one of the latest countries to implement a plastic packaging tax. SMX's technology can identify the evidence of 30% recycled plastic and the number of loop counts the plastic has gone through, making it easier and potentially cheaper to comply with this new Plastic Packaging Tax (PPT) UK Legislation.

### **SMX joins NextCycle Michigan**

As part of SMX's strategy to expand its technology in North America, the Company teamed up with NextCycle Michigan, an initiative of the Michigan Department of Environment, Great Lakes, and Energy (EGLE), facilitated by Resource Recycling Systems Inc. and with support from the Michigan Recycling Coalition, and Centropolis Accelerator at Lawrence Technological University.

A key component of the initiative is to transform the recycling practices for one of the world's biggest automotive industrial regions and allow the state to become a sustainable leader. NextCycle Michigan is a pathway to identify and incubate ideas that grow the state's recycled materials supply chain and end markets. One of SMX's goals for the region, is the ability to provide an immediate solution to car manufacturers to design and manufacture a fully recyclable car, encompassing all materials and inclusive of all substances.

SMX looks forward to working with NextCycle Michigan to participate in the transformation of Michigan's plastic, and consequently automotive industry supply chain, into a sustainable, circular economy through enhanced recyclability. With the state home to so many of North America's automotive suppliers, joining NextCycle Michigan will assist SMX's hopes to connect and support these companies in creating a circular economy with their products.

### **SMX targets the superfood industry**

SMX expanded its food division during the period and announced the successful application of the Company's invisible marker technology to track oyster provenance. SMX completed laboratory tests on the marking of oyster shells with a food grade marker while the oyster is being cleaned and processed. The test verified that SMX's marker can be applied to a live oyster without impacting its quality or physical appearance.

SMX oyster tracking developments enables sellers to assure brand provenance, quality protection, traceability, and authenticity of premium oysters for consumers.

With this confirmation, SMX has now opened the door to significantly expand into a large addressable market within the superfood industry and is currently in commercial discussions with multiple international suppliers.

### **SMX Advisory Board Appointment**

During the quarter, the Company was pleased to appoint the recently retired Director General of the Israel National Cyber Directorate (INCD), to Security Matters Advisory Board. Mr Yigal Unna brings 30+ years of experience in the Israeli security apparatus and previously held a number of signals intelligence (SIGINT) and cyber positions combining intelligence, R&D and operations together with policy and capacity building. He also served as Head of the SIGINT-Cyber Division in the Israeli Security Agency ("Shin-Bet") directly under the Director General and was responsible for national cyber defence and critical infrastructures security, intelligence collection and operation.

Mr Unna will be integral in establishing SMX's relationships with the US Administration relating to Cyber Security and the large American original equipment manufacturer (OEM) companies.

Mr Unna holds an MBA and BA in History and Management from Tel Aviv University.

## 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.

SMX remains firmly committed to stay on track with its strategic roadmap for the SMX technology to be adopted and scaled across its strategic market segments globally. Driven by its long-term vision and dedication to innovation, SMX will continue to offer its clients the ability to authenticate and verify the origination of its raw materials, as well as transition successfully to a closed loop economy.

With a strong balance sheet, SMX will utilise this to progress ongoing pilot projects into commercial contracts.

SMX will stay vigilant and resilient amid a continuing uncertain environment disrupted by a global health pandemic.”

## 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.

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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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