

31 January 2020

Q4/2019 – Quarterly Activity Report

- **SMX** has progress well in driving adoption of its technology with leading commercial brands globally, across various sectors encompassing raw materials, finished goods and branded goods
- **SMX's** commercial relationships have driven tech developments and **SMX** is in a strong position to capitalise on growing demand for a circular economy solution and enhancing smart sorting and recycling
- The Company is also well positioned to rapidly deploy its smart sorting and recycling solution and detailed announcements on this will be released in due course
- **SMX** launches second generation blockchain product with a fully customisable user interface and full external system compatibility
- **SMX** identifies and aggressively targets two new markets with huge opportunities for growth; timber and lumber, and fashion
- Two patents filed in the US for **SMX's** solution developed under its Equilibrium Economy business model
- **SMX** strengthens its position in the cannabis sector with an additional patent application relating to the classification and identification of seeds and plants

Security Matters Limited (ASX: SMX) (Security Matters or the Company), a product lifecycle, supply chain integrity and asset tracking blockchain technology company focussed on becoming the global record of all physical goods with an Equilibrium Economy sustainability model has today published its Appendix 4C for the three months ended 31 December 2019 and provides an overview of its operational highlights.

Commercial Operations

Second generation blockchain product launches boasting key new features

In a milestone achievement, **SMX** launched its second generation blockchain product in collaboration with R3 and Quantum Crowd, two months following the release of its first generation blockchain product on the 12th of September 2019.

As an upgrade to its original offering, the second generation product is a customer solution based version that boasts a range of additional features including, a fully customisable user interface, the ability to fully integrate into the user's existing internal and external IT systems and full compatibility across all systems when utilising **SMX's** marking, reading and supply chain integrity offering.

New target sectors with significant opportunity for growth

In addition to its current operations, the Company has identified and is actively targeting two new sectors in which its technology can be utilised to progress sustainability efforts and provide an easy and cost-effective solution to establishing a circular economy.

Timber

SMX has been working in collaboration with former Tasmanian Premier Paul Lennon AO to develop and bespoke solution to drive sustainability and transparency within the Australian and European time and lumber industry.

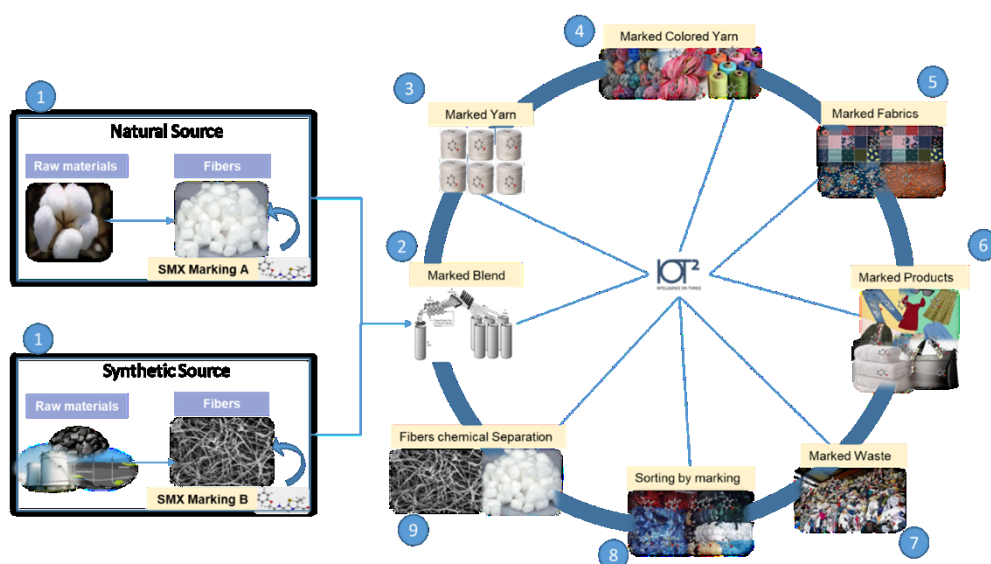
SMX is also working with a number of timber and lumber companies in Tasmania to test its solution in real-time applications across the growing, production and chemical treatment process of trees, extending to the ongoing commercial production and use of timber with the building, infrastructure and fashion sectors.

Fashion

The fashion sector was one of the first industries to adopt and implement sustainability models and SMX is aggressively targeting this sector with its Equilibrium Economy business model.

The Sustainable Fashion Blueprint report released in 2018 cites that the global fashion market is worth 1 trillion Euros and is the seventh largest economy globally. It is also estimated that the industry disposes of 500,000 tons of microfibre into the ocean each year, the equivalent to ~3 million barrels of oil. As a result of increasing pressure, fashion houses are seeking a circular model to drive sustainability, reduce costs and capitalise on the re-use of existing product.

SMX has developed an end-to-end solution under its Equilibrium Economy business model to provide retailers supply chain transparency, brand liability and overall cost savings. The solution will enable manufacturers to invisibly mark, trace and store data on raw materials (fibres) across all three product life cycles; raw material to production, production to commercial and commercial to recycle/reuse with the data stored on the blockchain.



Research and Development

SMX files two US patents covering its Equilibrium Economy

During the quarter, SMX lodged two patent applications in the USA for the proprietary technology developed under its Equilibrium Economy business model, covering the specific processes within its reuse and recycle offering.

The patent file numbers are 62/913,548 and 62/915,132 and cover SMX's disruptive technology under its Equilibrium Economy business model which operates at a molecular level across the three product life cycles; raw material to production; production to commercial applications; and commercial applications to recycling and reuse.

To date, the use of SMX's technology has been focused on the plastics, agriculture, electronics, fashion and resources sectors and is designed to advance and streamline the process of separating materials during chemical and mechanical recycling. In turn driving sustainability, reducing carbon emissions and maximising the efficiency of the entire recycling process.

Significant progress made in cannabis sector

In addition to the above, SMX significantly strengthened its position within the cannabis sector with the lodgement of a US patent application (file number: 62/894,892) relating to the materials and methods used in the marking, classification and identification of seeds and plants.

More specifically, the patent covers the use of SMX's chemical solution for marking plants, including cannabis plants during any of the six stages of plant growth and plant cultivation, as well as directly to the seed prior to planting. The marking solution can be applied to the seed or plant via a coating, irrigation and fertilisation method and is used for product authentication, supervision and supply chain management of the plant and plant by-products.

The lodgement of this patent demonstrates the significant progress made following the signing of an agreement with leading medicinal cannabis distributor, CliniCann in January 2019.

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By order of the CEO.

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 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")

31 December 2019

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	56	137
1.2 Payments for		
(a) research and development	-112	-383
(b) product manufacturing and operating costs	-5	-12
(c) advertising and marketing	-113	-334
(d) leased assets	-4	-15
(e) staff costs	-528	-2,013
(f) administration and corporate costs	-362	-1,571
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	13
1.5 Interest and other costs of finance paid	-3	-17
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other- GST and VAT return	79	325
1.9 Net cash from / (used in) operating activities	-989	-3,871

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-45	-194
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
	(d) intellectual property	-178	-484
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) 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	-223	-678

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	4,448
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-386
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-69
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	-	3,993

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,860	2,350
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-989	-3,871
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-223	-678
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	3,993

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.5	Effect of movement in exchange rates on cash held	60	-86
4.6	Cash and cash equivalents at end of quarter	1,708	1,708

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	1,708	2,860
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)	1,708	2,860

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

Current quarter
\$US'000

-71
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

Current quarter
\$US'000

-8
-

- 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.

8. Financing facilities available <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	405	405
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 405K at quarter end).

Terms of loan:

- 1) Annual interest rate of 4%.
- 2) Loan repayment in quarterly instalments of ILS 250,000 (~US\$ 71K)

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. Estimated cash outflows for next quarter	\$US'000
9.1 Research and development	-115
9.2 Product manufacturing and operating costs	-7
9.3 Advertising and marketing	-100
9.4 Leased assets	-5
9.5 Staff costs	-510
9.6 Administration and corporate costs	-360
9.7 Other (provide details if material)	
GST and VAT return	85
Purchase of property, plant and equipment	-55
Purchase of intellectual property and patent applications	-110
Repayment of part of shareholder loan	-71
9.8 Total estimated cash outflows	-1,248


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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:



 (Director/Company secretary)

Date: 31st January 2020

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.