

Security Matters Limited
Appendix 4D
Interim report for the half year ended 30 June 2019

1. Company details

Name of entity: Security Matters Limited

ABN: 78 626 192 998

Reporting period: Half year ended 30 June 2019

Previous reporting period: Half year ended 30 June 2018

2. Results for announcement to the market

			US\$
Revenues from ordinary activities	down	84% to	6,797
Loss from ordinary activities after tax attributable to the owners of Security Matters Limited	up	45% to	2,082,529
Loss for the half year attributable to the owners of Security Matters Limited	up	45% to	2,082,529

Dividend

No dividends have been declared or are payable for the period ended 30 June 2019.

Review of operations

The loss after tax for the half year period of the consolidated entity increased to \$2,082,529 compared to a loss of \$1,438,387 in H1 2018.

The increase in the loss during this period was due to the increase in several expenditures along with a decrease in revenue. General and Administrative costs as well as Legal and consultants' expenses increased significantly as a result of the company listing on the ASX during H2 2018 and starting its operating activities in Australia. In addition, Share Based Compensation costs also increased, as well as Research and Development together with Selling and Marketing expenses.

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

3. Net tangible assets

	30 June 2019	31 December 2018
	US \$	US \$
Net tangible asset per security	0.034	0.018

4. Control gained or lost over entities

Not applicable.

5. Details of associates and joint venture entities


Not applicable.

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 2019 of Security Matters Limited is attached.

A handwritten signature in blue ink, appearing to read 'Haggai Alon', is positioned above a horizontal line.

Director: Haggai Alon
Date: 30 August 2019

SECURITY MATTERS LIMITED, ABN 78 626 192 998
INTERIM REPORT 30 JUNE 2019



SECURITY MATTERS LIMITED
INTERIM REPORT FOR THE HALF YEAR ENDED 30 JUNE 2019

SECURITY MATTERS LIMITED

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The amounts are stated in U.S dollars

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 2019.

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:

- Commercial agreement signed with leading diamond manufacturer, Trifecta Industries Inc. with \$500,000 investment to establish a new jointly owned company.
- Commercial discussions commence with R3 and Ambar, demonstrating SMX's ability to partner with high calibre companies.
- Collaboration agreement signed with Performance Chemical division of BASF.
- Development agreement signed with The Perth Mint for developing a track and trace solution for the gold industry.

Directors

The name 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
Mr. Everardus (Ed) Hofland	Executive Chairman
Ms. Jovanka Naumoska	Non-Executive Director
Dr. Gregory Clark	Non-Executive Director
Mr. David Rosenblatt	Executive Director
Mr. Amir Bader	Non-Executive Director
Mr. Haggai Alon	Chief Executive Officer & Executive Director

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, 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. The Company has generated initial sales in 2018 and is expecting to advance commercialisation of the technology in 2019. Main sectors of activity for 2019 are: plastics, electronics, precious stones, minerals and agriculture.

INTERIM REPORT 30 JUNE 2019

DIRECTORS REPORT

Significant changes in state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-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 \$2,082,529 compared to a loss of \$1,438,387 in the half year ended 30 June 2018. The comparable figures for 2018 are of the Israeli subsidiary only, for the period prior to listing on the ASX. Since listing on the ASX the Company grew its volume of operations, commenced operations in Australia and recruited new employees.

During the half year the Company recorded Revenues of approximately US\$7,000 as well as Receipts and Receivables from Proof of Concept projects (POC's) and paid pilots of approximately US\$125,000. The Company treated the funds received from POC's and paid pilots as a reduction of R&D costs and not as revenues.

The increase in expenses during the current period was due to the growth in activity. The increase in General and Administrative costs and Legal and Consultants' expenses was a result of listing on the ASX during the year and commencement of operations in Australia. The growth in the number of the Company's employees lead to an increase in share based compensation costs as well as Research and Development costs. Selling and marketing costs grew as the Company's efforts shifted towards generating revenues.

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

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

The Company has two main features of its business model:

- (i) The Company as a business to business company; and
- (ii) The Company offers a 'white label' solution.

Events after the reporting period

Since the reporting date the following significant events have occurred:

- 4/7/2019 – Major technological milestone achieved for delivery of 500,000 library codes
- 16/7/2019 – US patent filed to authenticate artwork

Auditor's independence declaration

The Auditor's independence declaration for the period ended 30 June 2019 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 "Hagai Alon", written over a horizontal line.

Director: Hagai Alon

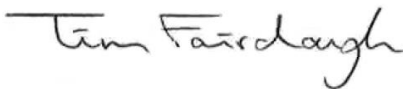
Date: 30 August 2019

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 2019, 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
Partner

BDO East Coast Partnership

Melbourne, 30 August 2019

INTERIM REPORT 30 JUNE 2019

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE PERIOD ENDED 30 JUNE 2019**

Consolidated		30 June 2019	30 June 2018
	<u>Note</u>	US\$	US\$
Revenue		6,797	43,323
Cost of sales		(6,546)	(30,931)
Gross profit		251	12,392
Research and development expenses, net		(840,761)	(581,778)
Share based compensation		(351,142)	(175,846)
Selling and marketing expenses		(78,375)	(10,805)
Depreciation and amortisation		(66,238)	(55,751)
General and administrative expenses		(458,817)	(173,450)
Legal and consultants expenses		(337,881)	(206,076)
Finance expenses		(10,753)	(251,103)
Finance income		61,187	4,030
Loss before income tax		(2,082,529)	(1,438,387)
Income tax		--	--
Loss after income tax		(2,082,529)	(1,438,387)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation reserve		(74,743)	--
Total comprehensive Income		(2,157,272)	(1,438,387)
Loss per share attributable to owners of the Companyⁱ	[4]	(0.02)	(0.03)
Diluted loss per share attributable to owners of the Companyⁱ	[4]	(0.02)	(0.03)

ⁱ For 30 June 2018, the number of shares and loss per share are adjusted to the number of shares received in parent entity in consideration for the shares in Security Matters Ltd. (Israel).

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

Consolidated		30 June 2019	31 December 2018
	<u>Note</u>	<u>US\$</u>	<u>US\$</u>
<u>Current Assets</u>			
Cash and cash equivalents		4,229,177	2,350,084
Trade receivables		3,956	--
Other receivables		287,678	204,668
Total Current Assets		4,520,811	2,554,752
<u>Non-Current Assets</u>			
Property and equipment		489,956	309,787
Intangible assets		1,343,431	1,084,601
Total non-current assets		1,833,387	1,394,388
Total assets		6,354,198	3,949,140
<u>Current Liabilities</u>			
Trade payables		255,143	280,120
Amounts owed to related parties		56,018	7,065
Lease liability short term	[2]	34,287	--
Other payables		320,941	275,076
Borrowings	[5]	280,426	266,809
Total current liabilities		946,815	829,071
<u>Non-Current Liabilities</u>			
Long term borrowings	[5]	112,170	173,426
Other Liabilities		107,592	93,110
Lease liability long term	[2]	71,026	--
Provisions		4,783	4,550
Total non-current liabilities		295,571	271,086
Total liabilities		1,242,386	1,100,157
Net Assets		5,111,812	2,848,983
<u>Equity</u>			
Issued capital	[6]	14,961,519	10,892,560
Share based payment reserve	[7]	2,131,553	1,780,411
Foreign currency translation reserve		(106,667)	(31,925)
Accumulated losses		(11,874,593)	(9,792,064)
Total Equity		5,111,812	2,848,983

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

INTERIM REPORT 30 JUNE 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2019

Consolidated	<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 2019	10,892,560	1,780,411	(31,925)	(9,792,064)	2,848,984
Comprehensive income					
Loss after income tax for the year	--	--	--	(2,082,529)	(2,082,529)
Other comprehensive income for the year, net of tax	--	--	(74,743)	--	(74,743)
Total comprehensive income for the year	--	--	(74,743)	(2,082,529)	(2,157,272)
Transactions with owners in their capacity as owners					
Issuance of shares	4,404,885	--	--	--	4,404,885
Capital raising costs	(335,927)	--	--	--	(335,927)
Share based compensation	--	351,142	--	--	351,142
Total transactions with owners in their capacity as owners	4,068,959	351,142	--	--	4,420,100
Balance at 30 June 2019	14,961,519	2,131,553	(106,667)	(11,874,593)	5,111,812

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

INTERIM REPORT 30 JUNE 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2019

Consolidated	<u>Issued Capital</u>	<u>Share based payment reserve</u>	<u>Prepayments on account of shares</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated losses</u>	<u>Total Equity</u>
	US\$	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2018	1,250,000	719,468	130,411	--	(5,759,270)	(3,659,390)
Comprehensive income						
Loss after income tax for the year	--	--	--	--	(1,438,387)	(1,438,387)
Total comprehensive income for the year	--	--	--	--	(1,438,387)	(1,438,387)
Transactions with owners in their capacity as owners						
Issuance of shares	750,000	--	(130,411)	--	--	619,589
Conversion of convertible notes	3,582,398	--	--	--	--	3,582,398
Share-based payments	--	175,846	--	--	--	175,846
Total transactions with owners in their capacity as owners	4,332,398	175,846	(130,411)	--	--	4,377,833
Balance at 30 June 2018	5,582,398	895,314	--	--	(7,197,656)	(719,944)

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

CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE PERIOD ENDED 30 JUNE 2019

Consolidated		30 June 2019	30 June 2018
	<u>Note</u>	US\$	US\$
<u>Cash flows from operating activities:</u>			
Loss before tax for the year		(2,082,529)	(1,438,387)
Share based compensation		351,142	175,846
Change in fair value of convertible notes		--	301,132
Depreciation and amortization		66,238	55,751
(Increase)/decrease in other receivables		(83,009)	61,652
Increase in Trade receivables		(3,956)	(21,973)
Decrease in trade payables		(24,976)	(14,649)
Increase/(decrease) in other payables		94,816	(31,034)
Increase/(decrease) in provision		232	(164)
Increase in lease liability	[2]	105,313	--
Increase/(decrease) in other liabilities		14,482	(31,770)
Cash used in operating activities		<u>(1,562,247)</u>	<u>(943,597)</u>
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment		(234,104)	(20,461)
Capitalisation of R&D expenses		(271,132)	(104,311)
Cash used in investing activities		<u>(505,237)</u>	<u>(124,772)</u>
<u>Cash flows from financing activities:</u>			
Proceeds from issue of convertible notes		--	1,191,329
Payments of borrowings to related parties		(70,107)	--
Proceeds from issuance of shares, net		4,068,959	619,589
Cash provided from financing activities		<u>3,998,852</u>	<u>1,810,918</u>
Increase in cash and cash equivalents		<u>1,931,368</u>	<u>742,549</u>
Cash and cash equivalents at beginning of year		2,350,084	10,665
Exchange rate differences (including translation)		(52,274)	22,248
Cash and cash equivalents at end of year		<u>4,229,177</u>	<u>775,462</u>

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 2019

Notes to the 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 30 August 2019 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 2019 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.

During the year ended 31 December 2018, Security Matters Limited completed a capital reorganisation transaction with the shareholders of Security Matters Ltd. (Israel). In accordance with the Australian Accounting Standards, the transaction did not constitute a business combination and the financial report has been prepared as a continuation of Security Matters Ltd. (Israel).

The comparative financial information in the statement of profit or loss and other comprehensive income includes that of Security Matters Ltd, not the Company. The comparative financial information in the statement of financial position includes the consolidated amounts. The financial information for the current period includes the consolidated amounts.

The accounting policies adopted are consistent with the accounting policies of Security Matters Ltd.'s (Israel) last annual financial report for the half year ended 30 June 2018.

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 2018 annual financial report for the financial year ended 31 December 2018, except for the impact of the Standards and Interpretations described below.

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

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 chief operating decision maker 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

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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.

New or amended Accounting Standards and interpretations adoptedAASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 January 2019.

The objective of AASB 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability. The depreciation would usually be on a straight-line basis. In the statement of cash flows, a lessee separates the total amount of cash paid into principal (presented within financing activities) and interest (presented within either operating or financing activities) in accordance with AASB 107 Statement of cashflows.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The initial lease asset equals the lease liability in most cases.

The lease asset is the right to use the underlying asset and is presented in the statement of financial position as part of property, plant and equipment.

Impact of application

The Company currently has one lease for an office and lab in Ketura, Israel, and four leased cars. Two other leases for a lab and office have a period shorter than 12 months and are not relevant for AASB 16 implementation.

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on the statement of financial position as at 30 June 2019 was as follows:

Consolidated	30 June 2019 US\$
Assets	
Right to use assets	102,847
Liabilities	
Lease liabilities - current	34,287
Lease liabilities- non current	71,026
Total liabilities	105,313

Right to use assets is presented in the statement of financial position as part of property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:**Amortisation of capitalized development costs and determination of useful life**

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. As at June 30 2019 part of the Marking and Reading Technology is amortised, and it is expected that other assets will begin amortization during H2 2019. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of profit or loss in specific periods.

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.

NOTE 4 - EARNINGS PER SHARE

	30 June 2019 US\$	30 June 2018 US\$
<i>Earnings per share for profit</i>		
Loss after income tax attributable to the owners of Security Matters Limited	(2,082,529)	(1,438,387)
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	103,186,620	52,537,691 ⁱ
Weighted average number of ordinary shares used in calculating diluted earnings per share	103,186,620	52,537,691 ⁱ

35,371,157 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

ⁱ For 30 June 2018, number of shares and loss per share are adjusted to the number of shares received in parent entity in consideration for the shares in Security Matters Ltd. (Israel).

NOTE 5 - BORROWINGS FROM RELATED PARTIES:

In 2015, the Group signed an agreement to receive a loan of NIS 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 installments commencing November 1, 2018.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

	30 June 2019 US\$	31 December 2018 US\$
Balance at 1 January	440,235	548,024
Payment of borrowings	(70,107)	(66,702)
Exchange rate differences	22,469	(41,087)
Balance at end of period	392,597	440,235
Current liability	280,426	266,809
Non-current liability	112,170	173,426
Total liability	392,597	440,235

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\$ 800K) 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\$ 820K) (**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 2018.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019**NOTE 6 – EQUITY- ISSUED CAPITAL:**

During the half year the Company issued a total of 12,410,000 shares in a placement of shares at a price per share of A\$0.5 (US\$0.35-0.36 per share).

Movement in issued capital within the period.

	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	Shares	Shares	US\$	US\$
Ordinary shares- fully paid	<u>109,910,000</u>	<u>97,500,000</u>	<u>14,961,519</u>	<u>10,892,560</u>

	Date	Number of shares	Unit Price	Share Capital
			US\$	US\$
Balance as at 1 January 2019	01/01/2019	97,500,000		10,892,560
Placement of shares	08/04/2019	10,800,400	0.35 ⁱ	3,830,902
Placement of shares	12/04/2019	1,609,600	0.36 ⁱ	573,983
Capital raising costs		--	--	(335,927)
Balance as at 30 June 2019	30/06/2019	<u>109,910,000</u>		<u>14,961,519</u>

ⁱ Both placements were at unit price of A\$0.5, the difference in USD price is due to exchange rate differences.

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.

NOTE 7 – RESERVES

Consolidated	30 June 2019	31 December 2018
	US\$	US\$
Share based payment reserve	2,131,553	1,780,411
Foreign currency translation reserve	(106,667)	(31,925)
	<u>2,024,886</u>	<u>1,748,487</u>

Share based compensation

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

	Number of Options	US\$
Opening balance at 1 January 2019	<u>33,321,157</u>	<u>1,780,411</u>
Issue of Options during the half-year	2,050,000	161,967
Amortisation of previously issued ESOP Options	--	189,175
Closing balance at 30 June 2019	<u>35,371,157</u>	<u>2,131,553</u>

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

NOTE 8 – CONTROLLED ENTITIES

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	Country of Incorporation	Percentage Owned 30 June 2019	Percentage Owned 30 June 2018
Security Matters Ltd	Israel	100%	0%

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

NOTE 9 – SUBSEQUENT EVENTS

Since the reporting date the following significant events have occurred:

- 4/7/2019 – Major technological milestone achieved for delivery of 500,000 library codes
- 16/7/2019 – US patent filed to authenticate artwork

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 6 to 16, 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 2019 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 this30..... day of ...August..... 2019

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 2019, 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 then ended, and notes comprising a statement of 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 half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 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*.

Directors' responsibility for the Half-Year 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 is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 2019 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*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

A handwritten signature in black ink. The first line reads 'BDO' in a stylized, blocky font. The second line is a cursive signature that reads 'Tim Fairclough'.

Tim Fairclough
Partner

Melbourne, 30 August 2019