

31 October 2019

Q3/2019 – Quarterly Activity Report

- **SMX** delivers strong progress across all operations during the quarter
- **SMX**'s blockchain product launched, in collaboration with R3 and Quantum Crowd, providing customers an end-to-end tracking solution using the blockchain
- Equilibrium Economy business model launches, focussed on sustainability, circular economies and carbon credits within the plastics, fashion, timber, resources and electronics sectors
- Two patent applications submitted, significantly strengthening **SMX**'s IP and securing its technology while the Company executes its growth strategy

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 30 September 2019 and provides an overview of its operational highlights.

Operational Update

The Company has continued to build strong relationships with strategic partners during the quarter and **SMX** maintains a strong focus on delivering on its commercialisation strategy for its supply chain integrity, authentication, brand liability and quality assurance solution for the plastics, electronics, agriculture and precious metals sectors.

SMX has identified several significant growth opportunities within these sectors as plastic polymers (crude oil), rare earths, minerals and wood are used on a mass scale globally in the production of infrastructure and consumer and commercial products.

Commercial Operations

Blockchain product launched

During the quarter, **SMX** successfully launched its blockchain product in collaboration with R3 and Quantum Crowd.

The launch followed a three-month collaboration project where the technical teams at **SMX**, R3 and Quantum Crowd successfully developed a bespoke platform providing an end-to-end blockchain solution for customers. The product, to be provided by Quantum Crowd, operates on R3's platform, Corda as well as the user interface.

The product launch follows the signing of an MoU between **SMX** and R3 in June 2019.

Equilibrium Economy Launch

The Company's primary focus continues to be to promote and commercialise its unique patented technology that enables end-product manufacturers and producers to invisibly mark, trace and store data within raw materials at a molecular level, across the three product life cycles; raw material to production; production to commercial application and; commercial application to recycling and reuse.

Discussions with strategic partners progressed well during the quarter and **SMX** made significant advancements within the strategic avenues it is exploring to achieve its goal of creating a digital twin of every physical object. As a result, the Board and Management focussed on creating new value-add technology offerings to ensure the Company remains at the forefront of innovation and offers extended services to create added value for partners and customers.

To implement its Equilibrium Economy business model, the Company is focused on the below as strategic priorities over the coming quarters.

- **Electronics IOT²:** **SMX** is working with a number of electronic component manufacturers, brands and suppliers to further develop its technology specifically for the electronics sector offering authentication of electronic components at every stage of the supply chain.
- **Equilibrium Economy for the plastics industry:** **SMX** has developed a durable molecular offering that has been specifically engineered for use in plastics. The technology can be used at any stage of the plastic life cycle enabling unrivalled supply chain transparency, authentication, more efficient recycling and a carbon credit monitoring system.
- **Equilibrium economy for fashion and textile industry:** **SMX**'s anti-counterfeiting technology promotes the growth of circular and sustainable economies. The technology can be incorporated from fiber to fabric thus providing supply chain transparency, brand liability and the ability for manufacturers to re-enter raw materials into the economy
- **Rare Earths and Minerals:** Leveraging the findings from existing projects in the gold sector, **SMX** is currently developing a solution for transparency and traceability for other rare earth elements and minerals. This also supports the growing demand for ethical mining transparency
- **Timber & lumber:** **SMX** is commercialising a technological solution providing traceability and accountability within the timber and lumber product industry. The solution can trace wood from the sawmill to the end product and ensure legal and sustainability regulations are adhered to.

To ensure the commercial success of its technology, **SMX** continues to engage with industry leaders to promote, develop and advance current projects.

Research and Development

IP strengthened with two patent applications

The Company continued to strengthen and secure its disruptive technology with the lodgement of two patent applications in the USA. The first patent (62/874,141), lodged in July 2019, relates to polymeric markers comprising one or more tracers that have been specifically designed to be used in the identification and authentication of artwork including fine art and ancient art.

The second patent (62/894,892), lodged in September 2019, covers the use of **SMX**'s chemical solution used to mark, classify and identify seeds and plants. More specifically, it covers **SMX**'s chemical solution for marking plants at any stage of the plant's growth.

Outlook

The Company has delivered strong progress during the third quarter of 2019 and developed a number of commercially meaningful relationships with several international organisations.

Going into the third quarter and onwards, SMX remain committed to leveraging these relationships to secure further collaboration agreements and proof of concept projects in order to deliver on its business model and commercialise its technology.

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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")

30 September 2019

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	55	81
1.2 Payments for		
(a) research and development	-117	-271
(b) product manufacturing and operating costs	-2	-7
(c) advertising and marketing	-104	-221
(d) leased assets	-4	-11
(e) staff costs	-554	-1,485
(f) administration and corporate costs	-465	-1,209
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	10
1.5 Interest and other costs of finance paid	-5	-14
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other- GST and VAT return	81	246
1.9 Net cash from / (used in) operating activities	--1,108	-2,882

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-149
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
	(d) intellectual property	-48	-306
	(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	-48	-455

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	-85	-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	-85	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	4,229	2,350
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-1,108	-2,882
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-48	-455
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-85	3,993

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
4.5	Effect of movement in exchange rates on cash held	-128	-146
4.6	Cash and cash equivalents at end of quarter	2,860	2,860

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	2,860	4,229
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)	2,860	4,229

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

-65
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

-15
-

- 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	402	402
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 402K 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	-95
9.2 Product manufacturing and operating costs	-3
9.3 Advertising and marketing	-75
9.4 Leased assets	-5
9.5 Staff costs	-520
9.6 Administration and corporate costs	-400
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	-120
Repayment of part of shareholder loan	-71
9.8 Total estimated cash outflows	-1,259

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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: 
(Company secretary)

Date: 31 OCTOBER 2019

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.