SECURITY MATTERS LIMITED

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

SECURITY MATTERS LIMITED

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The amounts are stated in U.S Dollars

CORPORATE DIRECTORY

Corporate Directory

Directors of the Company

Everardus (Ed) Hofland (Executive Chairman)

Jovanka Naumoska (Non-Executive Director)

Kathryn Davies (Non-Executive Director)

Amir Bader (Non-Executive Director)

Haggai Alon (Chief Executive Officer and Executive Director)

Company Secretary

c/- Mertons Corporate Services Pty Ltd

Mark Licciardo
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Australia

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c/- K&L Gates

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Auditors

BDO Audit Pty Ltd

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Melbourne VIC 3008 Australia

Legal Advisor

K&L Gates

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Melbourne, Victoria 3000, Australia

Israel Legal Advisor

Afik & Co

103 Ha'Hashmona'im St. ·
P.O.B 20144

Tel-Aviv Israel 6120101

CORPORATE DIRECTORY

Share Registry

Boardroom Pty Limited ABN 14 003 209 836
Level 12, 225 George Street
Sydney NSW 2000

Stock exchange listing

Security Matters Limited shares are listed on the Australian Securities Exchange (ASX code: SMX)

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 year ended 31 December 2021.

Directors
The name of the directors in office of the Company at any time during or since the end of the financial year, update to the date of this report, are:

Name	Role	Appointed
Mr. Everardus (Ed) Hofland	Executive Chairman	24 July 2018
Ms. Jovanka Naumouska	Non-Executive Director	24 July 2018
Ms. Kathryn Davies	Non-Executive Director	10 June 2020
Mr. Amir Bader	Non-Executive Director	24 July 2018
Mr. Haggai Alon	Chief Executive Officer & Executive Director	24 July 2018

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, 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 business-to-business (B2B), "white-label" solution that serves market leaders' needs for authentication, supply chain integrity and quality assurance.

Main sectors of activity for 2021 are: gold, circular economy, plastics, electronics, agriculture, luxury fashion and precious metals.

Significant changes in state of affairs
During 2021 the Company issued a total of 26,241,221 shares in a placement of shares at a price per share of A$0.2- 0.36 (US$0.16-0.28 per share).

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Dividend paid or recommended
No dividends were paid or declared during the financial period.

Review of operations
SMX is in an excellent position to build upon the innovations and achievements accomplished to make strong progress in its strategic roadmap for the SMX technology to be adopted and scaled up across its strategic market segments. SMX will continue to maintain a strong momentum as it progresses ongoing pilot projects into commercial contracts in 2022.
Loss after income tax for the period totaled $4,938,886 compared to a loss of $6,021,015 in 2020.
Most of the receipts from our partners during 2021 are their contribution in Proof of Concept (POC's) and pilots and are not classified as revenues. During the year, the Company recorded Receipts and Receivables from POC's and paid pilots of US$1,091,350. The Company treated the funds received from POC's and paid pilots as a reduction of R&D costs and not as revenues.

General and Administrative expenses decreased due to a large amount of share based compensation (issuance of options) that was issued in 2020, mainly to strategic business development advisors.
The increase in Research and Development expenses during the current period was due to the growth in activity.
Selling and Marketing expenses grew as the Company's efforts shifted towards generating revenues.
These results are expected for a young technology company that requires intensive R&D and is in the transition to commercial scale deployment.

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

The Company has two main features of its business model:
(i) The Company is a business- to- business company; and
(ii) The Company offers a 'white label' solution.

Likely Developments and Expected Results of Operations
The Company's principal continuing activity is the development and commercialisation of track and trace technology. The Company's future developments, prospects and business strategies are to continue to develop and commercialise this technology. The Company is primarily focused on the following industries: gold, circular economy, plastics, electronics, agriculture, luxury fashion and precious metals.The short-term goal for the Company is to focus on supplying services to worldwide market leaders in these industries, based mainly on the engagements already in place. The long term strategy of the Company is to utilise market leader adoption to become the industry standard for track and trace solutions, and later also to promote regulatory adoption.
Projects with industry leaders usually consist of three phases: (a) Initial consultations to determine the needs of the customer and tailor a solution to its requirements; (b) Marker implementation as part of the production process, including software; (c) Ongoing marking, identification and support services.

Operating result
The revenues and profit of the Company for the period amounted to:

	2021 US$	**2020 US$**	Increase/ (decrease) %	Amount change US$
Revenues from ordinary activities	-	13,447	(100%)	(13,447)
Loss from ordinary activities after tax attributable to members	(4,938,886)	(6,021,015)	(18%)	1,082,129
Net loss for the year attributable to members	(4,938,886)	(6,021,015)	(18%)	1,082,129

Indemnity and insurance of officers
The Company has indemnified the Directors and Executives of the Company for any costs which may be incurred, in their capacity as a Director or Executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company obtained insurance cover to insure the Directors and Executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.
During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company
No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.
The Company was not a party to any such proceedings during the year.

Non-Audit Services
During the period, no non-audit services were received.

Auditor's independence declaration
The Auditor's independence declaration for the year ended 31 December 2021 has been received and can be found on page 18 of the financial report.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law. Security Matters Ltd. (Israel) is subject to some environmental regulations. The Company holds a permit for the use of X-ray devices from the Israeli Ministry of Environmental Protection. The permit is required for the work conducted with the Reader. The permit must be renewed annually or whenever a new X-ray based reader is purchased and must include an annexure of all of the devices in use by the Company. The permit was last renewed in April 2021 and is valid until May 2022.
The Company is in compliance with the requirements of the ISO 9001:2015 standard for quality management and quality assurance. The Company is examined annually to verify that it complies with the ISO standards of excellence, safety, quality, process management and risks management.

Directors' interest in securities
The directors' interest in the consolidated entity's securities as at 31 December 2021 are as follows:

	Shares	**Options**			
Name	Number of shares	Number of Options	Exercise price	Vesting date	Expiry date
Executive Directors					
Mr. Everardus (Ed) Hofland[i]	11,624,124	5,000,000	A$0.20 (US$ 0.14)	14/10/2022 [iv]	14/10/2023
		167,000	A$0.70 (US$ 0.51)	[v]	06/12/2026
Mr. Haggai Alon[ii]	5,135,949	5,000,000	A$0.20 (US$ 0.14)	14/10/2022 [iv]	14/10/2023
		500,000	A$0.70 (US$ 0.51)	[v]	06/12/2026
Non-Executive Directors					
Mr. Amir Bader [iii]	10,757,621	1,382,322	A$0.20 (US$ 0.14)	Vested	14/10/2023
Ms. Jovanka Naumoska	89,370	--			
Ms. Kathryn Davies	86,823	--			

[i] Constitutes shares held by Kibbutz Ketura. Ed Hofland is a member of Kibbutz Ketura. Kibbutz Ketura holds 50% of Energy Ketura Cooperative Agricultural Society Ltd. And holds shares directly as well
[ii] Haggai Alon's securities are held by Benguy Escrow Company Ltd. (as escrow agent)
[iii] Constitutes shares held by Degania A Business ACS. Amir Bader is a member of Kibbutz Degania A which owns Degania A Business Agricultural Cooperative Society Ltd;
[iv] Vesting depends on achieving the milestones described in the remuneration report (page 12) and can be at an earlier date
[v] The options shall vest as follows: If the Company raises an aggregated amount of at least USD 10 million in one raise (including by way of a merger with a company with such amount in its treasury) 80% of the options will become vested. If an amount of USD 20 million or more is raised in one raise all options will become vested.

Directors' Meetings
The number of meetings of the company's directors held during the year ended 31 December 2021, and the number of meetings attended by each director were:

SMX Board Meetings	Board		ARC		RNC	
	Meetings	Attendance	Meetings	Attendance	Meetings	Attendance
Ed Hofland	5	4	N/A	N/A	N/A	N/A
Jovanka Naumoska	5	5	3	3	3	3
Amir Bader	5	5	3	3	3	3
Haggai Alon	5	5	3	3	3*	2*
Kathryn Davies	5	5	3	2	3	3

*attending as a guest

Share-Options outstanding
Unissued ordinary shares of Security Matters Limited as at the date of this report are as follows:

Date granted	Expiry Date	Exercise Price	Number of shares under option
04/04/2017	01/09/2023	A$0.2	945,226
18/06/2017	01/09/2023	A$0.2	829,507
11/01/2018	01/09/2023	A$0.2	773,366
15/03/2018	01/09/2023	A$0.2	975,586
08/10/2018	14/10/2023	A$0.2	7,021,638
08/10/2018	14/10/2023	A$0.2	10,000,000
27/05/2019	28/01/2024	A$0.31	600,000
27/05/2019	28/01/2022	A$0.31	250,000
27/05/2019	26/05/2022	A$0.31	250,000
04/06/2019	14/10/2022	A$0.4	500,000
05/06/2019	04/06/2024	A$0.31	125,000
14/06/2019	13/06/2022	A$0.50	200,000
02/10/2019	01/10/2022	A$0.50	100,000
02/10/2019	01/10/2022	A$0.31	300,000
01/01/2020	31/12/2024	A$0.357	50,000
01/01/2020	31/12/2025	A$0.357	105,000
28/01/2020	27/01/2025	A$0.39	150,000
12/03/2020	12/03/2023	A$0.6	4,926,466
25/03/2020	25/03/2023	A$0.6	1,391,255
31/03/2020	26/03/2025	A$0.34	300,000
31/03/2020	26/03/2025	A$0.6	200,000
31/03/2020	26/03/2025	A$0.34	150,000
31/03/2020	26/03/2025	A$0.34	125,000
31/03/2020	26/03/2025	A$0.34	125,000
29/05/2020	28/05/2025	A$0.2	2,500,000
29/05/2020	29/05/2023	A$0.6	3,250,000
25/10/2020	25/10/2023	A$0.36	100,000
23/11/2020	23/11/2023	A$0.6	3,089,591
27/11/2020	27/11/2023	A$0.6	1,000,000
27/11/2020	27/11/2023	A$0.6	500,000
29/12/2020	29/12/2023	A$0.7	1,341,815
04/01/2021	04/01/2024	A$0.5	100,000
04/01/2021	04/01/2024	A$0.7	1,000,000
04/01/2021	04/01/2024	A$0.6	500,000

22/03/2021	22/03/2026	A$0.355	250,000
22/03/2021	22/03/2026	A$0.355	250,000
01/06/2021	01/06/2026	A$0.351	200,000
18/07/2021	18/07/2026	A$0.351	850,000
18/07/2021	18/07/2026	A$0.351	150,000
07/09/2021	07/09/2024	A$0.6	1,000,000
06/12/2021	06/12/2026	A$0.7	500,000
06/12/2021	06/12/2026	A$0.7	167,000
27/09/2021	27/09/2026	A$0.351	100,000
27/09/2021	27/09/2026	A$0.7	50,000
10/12/2021	21/03/2022	A$0.4	1,150,000
10/12/2021	10/12/2023	A$0.35	1,150,000
10/12/2021	31/03/2022	A$0.4	4,469,331
			54,060,781

Events after the reporting period

Since the reporting date the following significant events have occurred:

1. On December 24, 2021, SMX signed an agreement with Global BevCo to acquire the remaining 50% in SMX Beverages Pty Ltd (SMXB). Global BevCo Unit Trust currently holds 50% of the shares in SMXB and SMX holds the other 50%. The acquisition of the 50% shares in SMXB in exchange for 8M options of SMX Limited at exercise price of AU$0.4. The acquisition agreement also provides a consulting agreement to Global BevCo including a A$13,500 per month retainer and a 5% revenue share for referred clients. The closing date of the transaction is expected to be reached in March 2022.
2. The impact of the coronavirus (COVID-19) pandemic is ongoing and while it has not adversely impacted the Company up to 31 December 2021, it is not practicable to estimate the protential impact, positive or negative after the reporting date. The situation is rapidly developing and is dependent on measures imposed by Governments, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stiumulus that may be provided.

Other than the above, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Information on directors:

Name of Director	Period as Director	Qualifications and experience
Everardus (Ed) Hofland **Executive Chairman**	Appointed 24 July 2018 Director of Security Matters Israel since 1/1/2015	Ed Hofland is a co-founder of Security Matters Israel and a business leader that has brought in multi-million dollar investments to the Arava Desert region of Israel. Ed Hofland is the chairman of leading industry, technology and agriculture companies in Israel, such as: i. Chairman of Arava Power Company, Israel's leading solar power company; ii. Chairman of Algatech, micro-algae producer that markets its products worldwide, including Japan, India, New Zealand and Europe; and iii. Chairman of Ardag Fish Farm that grows fish and caviar.
Haggai Alon **Executive Director**	Appointed 24 July 2018.	Haggai Alon is a co-founder of Security Matters Israel and has over 19 years of experience in commercializing technology. Haggai Alon has

	Director of Security Matters Israel since 1/1/2015	commercialised technology out of the Ministry of Defence in Israel as well as private sector technology. Haggai Alon has a master's degree out of Tel Aviv and Haifa Universities in international relations and political science. Haggai Alon was previously the chief coordinator of the Israeli military industry body at the Ministry of Défense and was the CEO of an economic consulting firm to the Kibbutz industries.
Jovanka Naumoska **Australian based Non-Executive Director and Independent Director**	Appointed 24 July 2018	Jovanka Naumoska is a corporate lawyer with ASX board-level experience, currently sitting on one other ASX listed company. Jovanka Naumoska serves as non-executive director for Imagion Biosystems Ltd (ASX: IBX), a medical device company that develops detection methods for several types of cancer. Jovanka Naumoska also serves as a Board member of the National Accreditation Authority for Translators and Interpreters Ltd and is a Council member of the Australian Dispute Resolution Council. Jovanka Naumoska has served as senior corporate lawyer specialising in intellectual property for nearly 20 years, and currently a corporate counsel for an Australian government research agency, and currently holds the position of Senior Commercial & Strategic Projects Counsel at such agency. Jovanka Naumoska holds Bachelor of Science degree with honours and Bachelor of Law degrees with honours and a Graduate Diploma of Legal Practice from the University of Wollongong. Jovanka Naumoska also holds a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia.
Amir Bader **Non-Executive Director**	Appointed 24 July 2018 Director of Security Matters Israel since 26/2/2015	Amir Bader has been a Security Matters board member since 2015 and he brings to the Company extensive experience in the management of agriculture businesses. Amir Bader is currently the manager of one of Israel's largest dairy farms and has more than 20 years of experience at managerial positions in dairy farms and other agricultural projects in Israel and Europe. Amir Bader also served as Kibbutz Dgani A's (a seed shareholder in Security Matters Israel) business manager for five years, during that period he served as the board member of several subsidiaries and companies related to the Kibbutz.
Kathryn Davies **Australian based Non-Executive Director and Independent Director**	Appointed 10 June 2020	Ms Davies is an experienced executive across mining, oil and gas, technology and healthcare groups. She has significant experience in negotiating and delivering on multi jurisdiction transactions, international stakeholder management and global capital markets, having worked for a number of ASX200 and dual-listed companies. She has extensive international commercial and corporate governance experience. She holds a Bachelor of Business, is a CPA and a graduate of the Australian Institute of Company Directors. Kathryn Davies is currently a Director of ASX listed Golden Rim Resources Ltd.

Information on Company Secretary

Mark Licciardo, (B Bus(Acc), GradDip CSP, FGIA, FCIS, FAICD)

Mark is the founder and Managing Director of Merton's Corporate Services which provides company secretarial and corporate governance consulting services to ASX listed and unlisted public and private companies.

As a former company secretary of Top 50 ASX listed companies Transurban Group and Australian Foundation Investment Company Limited, his expertise includes working with boards of directors in the areas of corporate governance, business management, administration, consulting and company secretarial matters. Mark is also the former Chairman of the Governance Institute of Australia Victoria division, Melbourne Fringe Festival and LCI Melbourne. Mark is also a director of a number of public and private companies. His current ASX listed company directorships include Frontier Digital Ventures Limited (ASX:FDV) and in the last three years included Mobilicom Limited (ASX:MOB).

DIRECTORS REPORT

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for key management personnel of the consolidated entity for the year ended 31 December 2021. The information contained in this report has been audited as required by section 300(A) of the Corporations Act 2001.

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The key management personnel of the consolidated entity, at any time during, or since the end of the reporting period, are:

Name	Role	Appointed	Resigned
Mr. Everardus (Ed) Hofland	Executive Chairman	24 July 2018	
Mr. Haggai Alon	Chief Executive Officer and Executive Director	24 July 2018	
Ms. Jovanka Naumoska	Non-Executive Director	24 July 2018	
Mr. Amir Bader	Non-Executive Director	24 July 2018	
Ms. Kathryn Davies	Non-Executive Director	10 June 2020	
Ms. Danit Cohen	Chief Financial Officer	1 January 2021	4 June 2021
Ms. Limor Moshe Lotker	Chief Financial Officer	4 June 2021	

Principles used to determine the nature and amount of remuneration

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Service agreements
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to key management personnel

The Company established a Remuneration and Nomination Committee on 1 February 2021.

During the financial year, the Company engaged a remuneration consultant who provided the board of directors with a review of executive remuneration.

The objective of the Company's remuneration policy is to attract and retain high caliber management personnel and directors to run and manage the Group. The policy aligns executive reward with the achievement of strategic objectives.

In accordance with best practice corporate governance, the structure of non-executive director and any executive remuneration is separate and distinct.

<u>Performance Conditions Linked to Remuneration</u>

Short-term incentives (i.e. bonuses) are designed to align the targets of the executives with Company performance. Bonus payments are granted to executives based on satisfaction of the Board.

The Group has established and maintains an Employee Share Option Plan (Plan) to provide an incentive to retain, in the employment or service or directorship of the Company persons of training, experience and provide the ability to attract new employees, directors or consultants whose services are considered valuable. The persons eligible to participate in the Share Option Plan ('Eligible Participants') include employees, directors and consultants of the Company or any subsidiary of the Company.

The purpose of the Plan is to assist in the reward and motivation of Eligible Participants and link the reward of Eligible Participants to performance and the creation of shareholder value. It is designed to align the interest of Eligible Participants more closely to the interests of shareholders by providing an opportunity for Eligible Participants to receive shares. It provides the Eligible Participants with the opportunity to share in any future growth in value of the Company and provides greater incentives for Eligible Participants to focus on the Company’s longer-term goals.

Due to the Company's current commercial stage, the Company believes that historical financial data is not relevant for setting the goals of future executive remuneration. The Group's financial performance for the current and previous year is summarised below:

DIRECTORS REPORT

	2021 US$	2020 US$
Revenue	-	13,447
Earnings before interest, tax, depreciation and amortisation and fair value movements (EBITDA)	(4,760,991)	(5,748,065)
Loss after income tax	(4,938,886)	(6,021,015)
Basic loss per share	(0.03)	(0.05)
Share price at year end (AU$)	0.28	0.40

Two Executive Directors were granted Performance Options during 2018, so that their remuneration will be dependent on the Company satisfying commercial and technological milestones. These milestones are viewed by the Board of Directors as key commercial and technological milestones for the long-term success of the company as they include a combination of commercial and technological achievements.

The milestones are:

Tranche	No of Options	Revenue milestone	Tech milestones	No of options allocated to each recipient
1	3,333,334	AU$1 million (US$ 0.73M at year end) revenues per half year for 2 consecutive half years	• Completion of bank of 25,000 markers for plastics industry • Completion of PDR (Preliminary Design Review) for Reader development	Haggai Alon – 1,666,667 Ed Hofland - 1,666,667
2	3,333,333	AU$2 million (US$ 1.46M at year end) revenues per half year for 2 consecutive half years	• Completion of bank of 25,000 markers for Electronics industry • Completion of CDR (Critical Design Review) for Reader development • Completion of blockchain software adaptation to the reader software	Haggai Alon – 1,666,667 Ed Hofland - 1,666,666
3	3,333,333	AU$4 million (US$ 2.92M at year end) revenues per half year for 2 consecutive half years	• Design and construction of automatic Marker production machine • Completion of development of new proprietary Reader at cost per reader of less than US$7,500	Haggai Alon – 1,666,666 Ed Hofland - 1,666,667

Additional options were granted in December 6, 2021 for capital raising milestone, with the following terms:

Director name	No. of Options	Capital Raising milestone	Exercise price	Expiration Date
Ed Hofland	167,000	If the Company raises an aggregated amount of at least USD 10 million in one raise (including by way of a merger with a company with such amount in its treasury) 80% of the options will become vested. If an amount of USD 20 million or more is raised in one raise all options will become vested.	A$0.7 (US$ 0.51)	6/12/2026
Haggai Alon	500,000	If the Company raises an aggregated amount of at least USD 10 million in one raise (including by way of a merger with a company with such amount in its treasury) 80% of the options will become vested. If an amount of USD 20 million or more is raised in one raise all options will become vested.	A$0.7 (US$ 0.51)	6/12/2026

Non-Executive Director Remuneration

The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability.

The maximum aggregate amount of annual fees that can be paid to Non-Executive Directors is presently limited to an aggregate of AU$300,000 (US$ 225,000 as at year end) and is subject to approval by shareholders at the Annual General Meeting. Non Executive Directors are currently paid via a mix of cash and shares. Any shares issued in lieu of cash remuneration are subject to approval by shareholders at the Company’s Annual General Meeting.

All Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of director.

Executive Remuneration

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Executive remuneration and reward packages has three components:

- Base salary and non-monetary benefits
- Short-term performance incentives
- Share-based payments

Refer to the Performance Conditions Linked to Remuneration section of this report for details on short-term incentives and long-term incentives.

The Company’s founders and executive directors have received performance options in previous years that will vest only upon achieving strategic commercial and development milestones that are material for the Company's success. In such way the Company encourages the executive directors to achieve key development and revenue goals. The main terms of the performance options are described at the end of the remuneration report.

DIRECTORS REPORT

Service Agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Executive Name	Services Agreement Summary
Mr. Haggai Alon	• Executive salary of ILS 40,000 (approximately US$12,388) gross per month, plus expenses and entitlements (such as sick leave and holidays). • Pension payments according to Israeli law, including advanced education fund up to the tax-exempt amount; • The contract is governed by Israeli law; • In 2021 the board approved ILS 166,000 (approximately US$51,400) for Haggai performance and success with the capital raise in 2020. • 90 days' notice period
Ms. Limor Moshe Lotker	• Executive salary of ILS 45,000 (approximately US$13,936) gross per month, plus expenses and entitlements (such as sick leave and holidays). • Pension payments according to Israeli law, including advanced education fund; • The contract is governed by Israeli law; • 90 days' notice period;
Mr. Ed Hofland	• Executive total annual remuneration of AUD 65,000; • Ed Hofland shall be paid for covering expenses to do with his role, which are not expressed to include social benefits (such as sick leave, holidays or pension payments); • The contract is governed by Israeli law;

Details of Remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables:

2021

	Short term benefits				Share-based payments	
	Short Term Salary US$	Bonuses	Nonmonetary benefits US$	Post-Employment Retirement Benefits US$	Equity settled US$	Total US$
Executive Directors						
Mr. Everardus (Ed) Hofland	48,750	--	--	--	10,859	59,609
Mr. Haggai Alon	148,639	51,404	11,259	38,089	32,510	281,901
Non-Executive Directors						
Ms. Jovanka Naumoska	21,656	--	--	2,093	11,742	35,491
Ms. Kathryn Davies	20,625	--	--	4,022	21,493	46,140
Mr. Amir Bader	--	--	--	--	19,982	19,982
Executives						
Ms. Danit Cohen [i]	75,462	--	--	18,960		94,422
Ms. Limor Moshe Lotker [ii]	108,707	--	--	29,160	7,655	145,522
Total	**423,839**	**51,404**	**11,259**	**92,324**	**104,241**	**683,067**

i Resigned on June 4,2021.

ii Appointed on June 4, 2021.

2020

	Short term benefits			Post-Employment Retirement Benefits	Share-based payments	
	Short Term Salary US$	Bonuses	Nonmonetary benefits US$	US$	Equity settled US$	Total US$
Executive Directors						
Mr. Everardus (Ed) Hofland	--	--	--	--	5,562	5,562
Mr. Haggai Alon	107,578	74,076	10,632	30,957	5,562	228,805
Mr. David Rosenblatt	--	--	--	--	283,331	283,331
Non-Executive Directors						
Dr. Gregory Clark	--	--	--	--	30,132	30,132
Ms. Jovanka Naumoska	26,520	--	--	2,656	11,366	40,542
Ms. Kathryn Davies	10,564	--	--	2,007	11,846[i]	24,417
Mr. Amir Bader	--	--	--	--	--	--
Executives						
Mr. Yonatan Musnikow	55,832	5,229	--	11,880	13,156	86,097
Total	**200,494**	**79,305**	**10,632**	**47,500**	**360,935**	**698,866**

[i] **Subject to shareholders approval**

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables:

	Fixed Remuneration		At- risk- Short-term incentives		At- risk- Long-term incentives	
	2021	2020	2021	2020	2021	2020
Executive Directors						
Mr. Everardus (Ed) Hofland	82%	--	--	--	18%	100%
Mr. Haggai Alon	70%	65%	18%	33%	12%	2%
Non-Executive Directors						
Ms. Jovanka Naumoska	100%	100%	--	--	--	--
Ms. Kathryn Davies	100%	100%	--	--	--	--
Mr. Amir Bader	100%	--	--	--	--	--
Executives						
Ms. Danit Cohen	100%	--	--	--	--	--
Ms. Limor Moshe Lotker	95%	--	--	--	5%	--

Remuneration for Non-Executive Directors may include the issue of shares in lieu of cash payment, which is subject to shareholder approval. Where shareholders do not approve the issue of shares in lieu of cash, a cash payment is to be made instead.

Bonuses

Name	Grant date	Nature of compensation granted	Service and performance criteria used to determine amount of the compensation	% of bonus or grant for financial year that was paid or vested in the financial year	The financial years, after the current financial year, for which the bonus will be payable if the service & performance criteria for the bonus or grant are met
Mr. Haggai Alon	31/01/2021	Cash Bonus of ILS 166,000 (USD 51,404)	To reward for complexity, effort and outcomes achieved, particularly with reference to capital raised in 2020	100%	N/A

Share-based compensation

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of Options	Grant date	Vesting and exercisable date	Expiry date	Nature of compensation granted	Service and performance conditions	Exercise price	Value per Option at grant date	$ value of SBP expense	% Vested
Executive Directors										
Mr. Everardus (Ed) Hofland	5,000,000	08/10/18	Within 4 years, subject to milestones	14/10/23	Performance Options	Described above	A$0.2 (US$ 0.15)	A$0.1 (US$ 0.07)	US$ 365,000	0%
	167,000	6/12/21	Subject to capital raising milestone	6/12/26	Performance Options	Described above	A$0.7 (US$ 0.51)	A$0.2 (US$ 0.15)	US$ 24,382	0%
Mr. Haggai Alon	5,000,000	08/10/18	Within 4 years, subject to milestones	14/10/23	Performance Options	Described above	A$0.2 (US$ 0.15)	A$0.1 (US$ 0.07)	US$ 365,000	0%
	500,000	6/12/21	Subject to capital raising milestone	6/12/26	Performance Options	Described above	A$0.7 (US$ 0.51)	A$0.2 (US$ 0.15)	US$ 72,000	0%

DIRECTORS REPORT

Additional disclosures relating to key management personnel

Options holdings of key management personnel

The tables below disclose the number of share options granted, vested or lapsed during the year. Share options do not carry any voting or dividend rights, and can only be exercised once the vesting conditions have been met, until their expiry date.

The number of options over ordinary shares in Security Matters Limited held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally related entities as at balance date, is as follows:

	Balance at start of year	Options issued during the year as remuneration	Forfeited during the year	Exercised during the year	Balance at the end of the year	Vested and exercisable	Unvested and unexercisable
Mr. Everardus (Ed) Hofland	5,000,000	167,000	--	--	5,167,000	--	5,167,000
Mr. Haggai Alon	5,000,000	500,000	--	--	5,500,000	--	5,500,000
Mr. Amir Bader[i]	1,382,322	--	--	--	1,382,322	1,382,322	--
Ms. Limor Moshe Lotker	--	200,000	--	--	200,000	--	200,000
Total	**11,382,322**	**867,000**	--	--	**12,249,322**	**1,382,322**	**10,867,000**

[i] Options granted to Degania A Business ACS Ltd for their services to the company. Amir Bader (Director of the Company) is a member of Kibbutz Degania A which owns Degania A Business Agricultural Cooperative Society Ltd;

Share holdings of key management personnel

The number of ordinary shares of Security Matters Limited held, directly, indirectly or beneficially, by each key management personnel, including their personally-related entities as at balance date:

	Balance at start of year	Shares issued during the year	Other changes during the year	Balance at end of the year
Executive Directors				
Mr. Everardus (Ed) Hofland[i]	11,624,124	--	--	11,624,124
Mr. Haggai Alon[ii]	5,135,949	--	--	5,135,949
Non-Executive Directors				
Mr. Amir Bader[iii]	10,667,898	89,723	--	10,757,621
Ms. Jovanka Naumoska	47,826	41,544	--	89,370
Ms. Kathryn Davies	--	86,823	--	86,823
Total	**27,475,797**	**218,090**	--	**27,693,887**

[i] Constitutes shares held by Kibbutz Ketura. Ed Hofland is a member of Kibbutz Ketura. Kibbutz Ketura holds 50% of Energy Ketura Cooperative Agricultural Society Ltd. and holds shares directly as well

[ii] Haggai Alon's (Director/CEO of the Company) securities are held by Benguy Escrow Company Ltd. (as escrow agent)

[iii] Constitutes shares held by Degania A Business ACS. Amir Bader (Director of the Company) is a member of Kibbutz Degania A which owns Degania A Business Agricultural Cooperative Society Ltd;

Loans from key management personnel and their related parties

Details of loans provided to the Group by key management personnel and their related parties are as follows:

	Balance at the start of the year	Interest paid and payable for the year	Repayments made during the year	Liability for Bonus	Change in US$ value of liability due to exchange rate differences	Balance at the end of the year
	US$	US$	US$	US$	US$	US$
Kibbutz Ketura (Ed Hofland)	139,969	1,031	(51,766)	43,655	1,766	134,655
Kibbutz Degania A (Amir Bader)	139,970	1,031	(51,766)	43,656	1,765	134,656
Total	**279,939**	**2,062**	**(103,532)**	**87,311**	**3,531**	**269,311**

In 2015, the Company signed an agreement to receive a loan of ILS 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 instalments commencing November 1, 2018.

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 the amount of US$87,311 as of 31 December 2021.

More details of the loan can be found in the note 15 of the financial statements.

Other transactions and balances with key management personnel and their related parties

Transactions with related parties are entered into on terms equivalent to those that prevail in arm's length transactions. The Group had the following transactions with key management personnel and/or their related parties during the year.

Entity / Key management personnel	Nature of transaction	Transaction value US$	Payable balance US$
Kibbutz Ketura (related party of Ed Hofland)	Payment for services provided by Kibbutz Ketura: bookkeeping, leased cars, finance services, food, lab rent, phone & internet	39,225	24,171
Total			

This concludes the remuneration report, which has been audited.

The directors have been given the declarations required by section 295A of the Corporations Act 2001. This Directors' report is signed in accordance with a resolution of the Board of Directors pursuant to section 298(2)(a) of the Corporations Act 2001.

Director: Haggai Alon

Date: 25 March, 2022

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Australia

DECLARATION OF INDEPENDENCE BY TIM FAIRCLOUGH TO THE DIRECTORS OF SECURITY MATTERS LIMITED

As lead auditor of Security Matters Limited for the year ended 31 December 2021, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Security Matters Limited and the entities it controlled during the period.

Tim Fairclough

Tim Fairclough
Director

BDO Audit Pty Ltd

Melbourne, 25 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	US$ 2021	US$ 2020
Revenue		--	13,447
Cost of sales		--	(10,324)
Gross profit		--	**3,123**
Research and development expenses	4	(2,038,916)	(1,689,266)
Selling and marketing expenses		(453,330)	(427,530)
General and administrative expenses	5	(2,481,740)	(3,894,142)
Operating Loss		**(4,973,986)**	**(6,007,815)**
Finance expenses	6	(101,082)	(79,132)
Finance income	6	237,842	66,276
Share of net loss of Joint Ventures	11	(101,660)	(344)
Loss before income tax		**(4,938,886)**	**(6,021,015)**
Income tax	7	--	--
Loss after income tax for the year attributable to the owners of Security Matters Limited		**(4,938,886)**	**(6,021,015)**
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation	17	(51,561)	388,330
Total comprehensive income for the year attributable to the owners of Security Matters Limited		**(4,990,447)**	**(5,632,685)**
Loss per share attributable to owners of the Company			
Basic and diluted loss per share attributable to owners of the Company	8	**(0.03)**	**(0.05)**

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

SECURITY MATTERS LIMITED, ABN 78626192998

ANNUAL REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	US$ 2021	US$ 2020
Current Assets			
Cash at bank		4,171,125	4,340,733
Trade receivables		--	6,346
Other receivables	9	920,506	438,605
Total current assets		**5,091,631**	**4,785,684**
Non-current assets			
Property and equipment	10	1,191,965	950,991
Intangible assets	12	3,908,289	2,100,807
Investment in joint venture	11	146,612	248,272
Total non-current assets		**5,246,866**	**3,300,070**
Total assets		**10,338,497**	**8,085,754**
Current Liabilities			
Trade payables		916,522	515,041
Lease liability	13	37,553	52,650
Other payables	14,21	672,877	553,252
Borrowings from related parties	15	269,311	279,939
Total current liabilities		**1,896,263**	**1,400,882**
Non-Current Liabilities			
Lease liability	13	465,812	485,155
Provisions	24	--	--
Other Liabilities	21	84,858	88,990
Total non-current liabilities		**550,670**	**574,145**
Total liabilities		**2,446,933**	**1,975,027**
Net Assets		**7,891,564**	**6,110,727**
Equity			
Issued capital	16	28,221,177	21,880,805
Share based payment reserve	17	4,730,781	4,299,869
Foreign currency translation reserve	17	223,026	274,587
Accumulated losses		(25,283,420)	(20,344,534)
Total Equity		**7,891,564**	**6,110,727**

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

SECURITY MATTERS LIMITED, ABN 78626192998

ANNUAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	US$ Issued Capital	US$ Share based payment reserve	US$ Foreign currency translation reserve	US$ Accumulated loss	US$ Total Equity
Balance at 1 January 2021	**21,880,805**	**4,299,869**	**274,587**	**(20,344,534)**	**6,110,727**
Comprehensive income					
Loss after income tax for the year	--	--	--	(4,938,886)	(4,938,886)
Other comprehensive Income for the year, net of tax	--	--	(51,561)	--	(51,561)
Total comprehensive income for the year	--	--	(51,561)	(4,938,886)	(4,990,447)
Transactions with owners in their capacity as owners					
Issuance of shares	6,166,072	--	--	--	6,166,072
Capital raising costs	(220,834)	--	--	--	(220,834)
Forfeit of Options	--	(256,221)	--	--	(256,221)
Share-based payments	395,134	687,133	--	--	1,082,267
Total transactions with owners in their capacity as owners	6,340,372	430,912	--	--	6,771,284
Balance at 31 December 2021	**28,221,177**	**4,730,781**	**223,026**	**(25,283,420)**	**7,891,564**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	US$ Issued Capital	US$ Share based payment reserve	US$ Foreign currency translation reserve	US$ Accumulated loss	US$ Total Equity
Balance at 1 January 2020	**14,987,577**	**2,370,145**	**(113,743)**	**(14,323,519)**	**2,920,460**
Comprehensive income					
Loss after income tax for the year	--	--	--	(6,021,015)	(6,021,015)
Other comprehensive income for the year, net of tax	--	--	388,330	--	388,330
Total comprehensive income for the year	--	--	388,330	(6,021,015)	(5,632,685)
Transactions with owners in their capacity as owners					
Issuance of shares	7,065,949	--	--	--	7,065,949
Capital raising costs	(172,721)	--	--	--	(172,721)
Forfeit of Options	--	(133,703)	--	--	(133,703)
Share-based payments	--	2,063,427	--	--	2,063,427
Total transactions with owners in their capacity as owners	6,893,228	1,929,724	--	--	8,822,952
Balance at 31 December 2020	**21,880,805**	**4,299,869**	**274,587**	**(20,344,534)**	**6,110,727**

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

CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	US$ 2021	US$ 2020
Cash flows from operating activities:		
Loss before tax for the year	(4,938,886)	(6,021,015)
Share based compensation	430,912	1,965,605
(Increase)/decrease in other trade receivables	6,346	(6,346)
Increase in Trade receivables	(481,901)	(156,035)
Depreciation and amortization	314,655	219,205
Increase in trade payables	401,481	322,728
Increase in other payables	119,625	149,687
Decrease in provision	--	(6,553)
(Decrease) in other liabilities	(4,132)	(14,992)
Provision of borrowing to related parties	89,337	--
Share in the losses of joint venture, net	101,660	344
Net cash flow used in operating activities	**(3,960,903)**	**(3,547,372)**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(297,475)	(234,913)
Purchase of intangible assets	(1,468,310)	(722,038)
Net cash flow used in investing activities	**(1,765,785)**	**(956,951)**
Cash flows from financing activities:		
Payments of borrowings to related parties	(103,532)	(144,259)
Payment of principal portion of lease liabilities	(50,964)	16,765
Proceeds from issuance of shares, net	6,340,372	6,857,348
Net cash flow from financing activities	**6,185,876**	**6,729,854**
Increase/ (Decrease)/ in cash and cash equivalents	**459,188**	**2,225,531**
Cash and cash equivalents at beginning of year	**4,340,733**	**1,707,768**
Exchange rate differences (including translation)	(628,796)	407,434
Cash and cash equivalents at end of year	**4,171,125**	**4,340,733**

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 year. 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, while the functional currency of Security Matters Ltd. (Israel) is New Israeli Shekels (ILS).

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 director's report, which is not part of the financial statements.

The Financial Statements were authorized for issue on 25 March 2022 by the directors of the company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed in the preparation of the financial statements, on a consistent basis, are:

New or amended Accounting Standards and interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting standards and interpretations of the Australian Accounting Standard Board and in compliance with International Financial Reporting Standards. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied.

Except for the cash flow statements, 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.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Security Matters Limited ('company' or 'parent entity') as at 31 December 2021 and the results of all subsidiaries for the year then ended. Security Matters Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and until the date that control is lost.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has incurred an operating loss after tax for the year ended 31 December 2021 of $4,938,886 (2020: loss $6,021,015). The loss for the current year includes non-cash costs in respect of share based expenses $430,912 (2020: $1,965,605). Net cash outflows used for operating activities for the current year totaled $3,960,903 (2020: $3,547,372). This is typical for an early stage technology company and is part of its ordinary life-cycle.

As of 31 December 2021, the Group had cash on hand of $4,171,125, other current and net current assets of $3,195,368 and net assets of $7,891,564.

Management have prepared a cash flow forecast, based on which the group has sufficient funds available to meet its commitments for at least twelve months from the date of signing this report.

The directors have a strong track record of raising capital, having raised USD 6,340,372 in FY21 and USD 6,857,348 in FY20.

The Group's market capitalisation at 31 December 2021 is significantly in excess of its net assets position of USD 7,891,564.
The Group received contributions (Proof of Concept POC) from its customers and joint arrangement partners towards its R&D costs in FY21 of USD 1,091,250. The Group has ongoing arrangements with their partners such that they will continue to receive such POC contributions over the next 12 months to enable the Group to meet its R&D obligations.
As the Group is still in the R&D phase of activities it has the ability to control the level of its operations and hence the level of its expenditure over the next 12 months. Should there be any delay in capital raising or POC cash inflows, management are confident that they can reduce their level of expenditure in order to retain appropriate cash balances. Management remain very diligent in their ongoing monitoring of cash balances day by day.

Critical Accounting Estimates and Assumptions

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Foreign currency

The financial statements are prepared in US Dollars which is the presentation currency of the Group. Security Matters Limited's functional currency is Australian Dollars, while the functional currency of Security Matters Ltd. (Israel) is New Israeli Shekels (ILS).
Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by Australian Accounting Standard (AASB) 21 ("The Effects of Changes in Foreign Exchange Rates"). Accordingly, transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the reporting date;
- Exchange gains and losses from the aforementioned conversion are recognized in the statement of comprehensive income.
- Expense items – at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange at the time of the transaction. Exchange gains and losses from the aforementioned conversions are recognized in the statement of comprehensive income.
- Exchange gains and losses of the company are recognized in the statement of comprehensive income in Foreign Currency Translation Reserve.

Revenue recognition

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.
Sale of goods- sale of Markers, Readers and software license
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the Markers or Readers, which is generally at the time of delivery. Revenue from software license is not yet generated but is expected to be recognised on a monthly basis.
Royalties
Revenue from royalties from the sale of Markers to a third party is recognised at the point in time when the partner recognizes the sale to the customer, which is generally at the time of delivery of Markers to the customer.
Rendering of services
Revenue from a contract to provide services for track and trace development is recognised over time as the services are rendered based on either a fixed price or an hourly/weekly rate. In cases the service agreement is milestones' based the revenue is recognised once milestones are achieved and approved by the customer.
Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Investment in joint arrangements:
Joint arrangements are arrangements in which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Joint ventures:
In joint ventures the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint operations:
In joint operations the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Company recognizes in relation to its interest its share of the assets, liabilities, revenues and expenses of the joint operation.
The Group's investments in joint ventures are accounted for using the equity method.
Under the equity method, the investment in the joint venture is presented at cost with the addition of post-acquisition changes in the Group's share of net assets, including other comprehensive income of the associate or the joint venture. Gains and losses resulting from transactions between the Group and the associate or the joint venture are eliminated to the extent of the interest in the associate or in the joint venture.
The financial statements of the Company and of the joint venture are prepared as of the same dates and periods. The accounting policies applied in the financial statements of the joint venture are uniform and consistent with the policies applied in the financial statements of the Group.
Losses of an associate in amounts which exceed its equity are recognized by the Company to the extent of its investment in the associate plus any losses that the Company may incur as a result of a guarantee or other financial support provided in respect of the associate. For this purpose, the investment includes long-term receivables (such as loans granted) for which settlement is neither planned nor likely to occur in the foreseeable future.
The equity method is applied until the loss of significant influence in the associate or loss of joint control in the joint venture or classification as investment held for sale.

Research and development
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The product is technically and commercially feasible.
- The Company intend to complete the product so that it will be available for use or sale.
- The Company has the ability to use the product or sell it.
- The Company has the technical, financial and other resources to complete the development and to use or sell the product.
- The Company can demonstrate the probability that the product will generate future economic benefits.
- The Company is able to measure reliability the expenditure attributable to the product during the development.

Capitalized development costs are amortized on a straight line basis over their estimated useful lives once the development is completed and the assets are in use. Subsequent expenditure on capitalized intangible assets is capitalized only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred.
The Company received cash flows from Proof of Concept partners as contributions towards R&D expenses incurred. These receipts are offset against R&D expenses in the statement of comprehensive income.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.
Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows
Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority

Loss per share

Basic loss per share

Basic loss per share is calculated by dividing the net loss attributable to the owners of Security Matters Limited, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

Governmental grants

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

Government grants received from the Israel Innovation Authority are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

A liability for grants received is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with AASB 37.

At each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses. Amounts paid as royalties are recognized as settlement of the liability.

Fair value measurement

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

A. In the principal market for the asset or liability; or
B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Classification of financial instruments by fair value hierarchy

The financial instruments presented in the statements of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Other receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services, but also incorporate other types of contractual monetary asset. These assets are carried at amortized cost less any provision for impairment.

The Company has no financial assets classified at Fair value through profit or loss.

Financial liabilities

The Company classifies its financial liabilities as follows:

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables, loans from related parties and other accounts payables are initially recognized at fair value less any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest method, which ensures that any interest expense over the period is at a constant interest rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs, as well as any interest or coupon payable while the liability is outstanding.
- Fair value through profit and loss: convertible loan is measured at fair value through profit or loss. Transaction costs are recognized in profit or loss.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate. The loss allowance is recognised in profit or loss.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost. Cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. Depreciation is computed by the straight line method, based on the estimated useful lives of the assets, as follows:

	%

Computers	33
Machines and equipment	20
Furniture and office equipment	10
Leasehold improvements	5

Leasehold improvements are depreciated over the term of the expected lease including optional extension, or the estimated useful lives of the improvements, whichever is shorter.

Right-of-use assets
All leases are accounted for by recognising a right-of-use asset and a lease liability.
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.
Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Leases
All leases are accounted for by recognising a right-of-use asset and a lease liability. Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.
On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favor of the Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease the remeasurement being recognized in front of the right of use assets.

Employee benefits
The Company has several employee benefit plans as to Israeli employees:

1. Short-term employee benefits: Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.
2. Post-employment benefits: The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans. The Company has defined for most of its employees contribution plans pursuant to Section 14 to the Israel Severance Pay Law since 2004 under which the Company pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense simultaneously with receiving the employee's services and no additional provision is required in the financial statements except for the unpaid contribution.

Intangible assets

Intangible assets include capitalized technology development costs as well as costs paid to legal and tech consultants. Intangible assets with a finite useful life are amortized over their estimated useful lives and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. Expenditure incurred on development activities including the Company's software development is capitalized only where the expenditure will lead to new or substantially improved products, the products are technically and commercially feasible and the Company has sufficient resources to complete the development and reach the Stage for which the product is ready for use.

Capitalized development costs are amortized on a straight line basis over their estimated useful lives once the development is completed and the assets are in use and until such date it is tested for impairment test on a yearly basis. Subsequent expenditure on capitalized intangible assets is capitalized only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred.

The amortization period for the company's intangible assets is as follows:

	Period (years)
Patents	20
Marking and Reading Technology	5
Software and Blockchain	3

Share-based payments

Equity-settled share-based compensation benefits are provided to key management personnel and employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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 ad 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 a line managers and the level of segment information presented to the Chairman of the board of directors. During the 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. All of the Company's non-current assets are located in Israel.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements.

also, the preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate. The key assumptions made in the financial statements are discussed below.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances. The Internal Borrowings Rate of 9.25% was calculated by an external valuer.

Amortisation of capitalized development costs and determination of useful life

Intangible assets are amortized 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 December 31 2021 part of the Marking and Reading Technology is amortised, and it is expected that other assets will begin amortization during 2022. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income 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.

Governmental grants

Government grants received from Israel Innovation Authority are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows used to measure the amount of the liability.

The Company measured the fair value of its governmental liabilities on grants received based on discounted cash flows derived from the Company's future anticipated revenues. The WACC rate of 23.7% was calculated by an external appraiser according to the CAPM model.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

NOTE 4 - RESEARCH AND DEVELOPMENT EXPENSES:

	2021 US$	2020 US$
Wages and salaries related	1,795,169	1,185,730
Share based compensation	100,295	47,545
Research expenses	252,574	155,083
Subcontractors and Consultants	630,047	509,499
Rent	-	52,980
Freight	23,133	32,708
Travel expenses	42,013	10,921
Depreciation and amortization	287,035	243,343
Reimbursement from paid pilots and proof of concept projects	(1,091,350)	(548,543)
Total	**2,038,916**	**1,689,266**

NOTE 5 - GENERAL AND ADMINISTRATIVE EXPENSES:

	2021 US$	2020 US$
Wages and salaries related	751,893	409,438
Share based compensation	330,617	1,881,515
Professional services	1,088,916	1,256,811
Travel expenses	-	65,237
Insurance	102,132	100,640
Fees -cost of trading	34,485	18,868
Office and maintenance	116,181	119,869
Depreciation and amortization	27,620	16,406
Others	29,896	25,358
Total	**2,481,740**	**3,894,142**

NOTE 6 – FINANCE EXPENSES AND INCOME

	2021 US$	2020 US$
(a) Finance expenses		
Bank fees	7,970	5,502
Loan interest	88,604	2,618
Financial interest	4,508	71,012
Total	**101,082**	**79, 132**
(b) Finance income		
Foreign Exchange Gain	230,622	52,234
Interest received	7,220	14,042
Total	**237,842**	**66,276**

NOTE 7 - TAXES ON INCOME:

Taxes on income:
The Company is incorporated and domiciled in Australia where the applicable tax rate is 27.5%.
Israeli corporate tax rates are 23%**.**

	2021 US$	2020 US$
Reconciliation of income tax at the statutory rate		
Loss before income tax	(4,938,886)	(6,021,015)
Tax at the statutory rate of 27.5% for Australia and 23% for Israel	(912,767)	(1,626,100)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenditure	115,931	538,381
Deductible expenditure – Capital raising costs	(60,729)	(47,498)
Unrecognised temporary differences and tax losses	857,565	846,139
Income tax / (benefit)	**--**	**--**

Net operating losses carry forwards:
As at December 31 2021, the Group has estimated carry forward tax losses of approximately US$17,836,696 (2020: US$13,102,431) which may be carried forward and offset against taxable income for an indefinite period in the future. The Group did not recognize deferred tax assets relating to carry forward losses in the financial statements because their utilization in the foreseeable future is not probable.
The unrecognised temporary differences and tax losses as at December 31 2021 are US$4,312,230 (2020: US$3,473,646).

NOTE 8 - EARNINGS PER SHARE

	2021 US$	2020 US$
Net loss after income tax attributable to the owners of the company	(4,938,886)	(6,021,015)
Basic and diluted loss per share	**(0.03)**	**(0.05)**
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used in calculating basic and diluted loss per share	151,849,880	125,960,110

NOTE 9 - OTHER RECEIVABLES:

	2021 US$	2020 US$
Tax authorities	280,706	220,086
Proof of concept receivables	116,051	97,500
Prepaid expenses	453,858	27,647
Other	69,891	93,372
Total	**920,506**	**438,605**

NOTE 10 - PROPERTY AND EQUIPMENT:

	Leasehold improvements US$	Machines and Equipment US$	Furniture and Office Equipment US$	Computers US$	Right of use assets US$	Total US$
Cost						
At January 1 2021	57,352	691,097	62,573	60,781	553,894	1,425,697
Additions	3,984	434,090	1,557	28,612	59,099	527,342
At December 31 2021	61,336	1,125,187	64,130	89,393	612,993	1,953,039
Accumulated depreciation						
At January 1 2021	10,562	330,343	17,788	39,654	76,359	474,706
Depreciation	4,592	186,454	6,948	16,080	72,294	286,368
At December 31 2021	15,154	516,797	24,736	55,734	148,653	761,074
Net book value at December 31 2021	**46,182**	**608,390**	**39,394**	**33,659**	**464,340**	**1,191,965**

	Leasehold improvements US$	Machines and Equipment US$	Furniture and Office Equipment US$	Computers US$	Right of use assets US$	Total US$
Cost						
At January 1 2020	39,670	523,254	32,440	41,527	115,416	752,307
Additions	17,682	167,843	30,133	19,254	438,478	673,390
At December 31 2020	57,352	691,097	62,573	60,781	553,894	1,425,697
Accumulated depreciation						
At January 1 2020	8,276	200,830	13,708	29,588	29,052	281,454
Depreciation	2,286	129,513	4,080	10,066	47,307	193,252
At December 31 2020	10,562	330,343	17,788	39,654	76,359	474,706
Net book value at December 31 2020	**46,790**	**360,754**	**44,785**	**21,127**	**477,535**	**950,991**

NOTE 11 – INTERESTS IN SUBSIDIARIES AND INVESTMENT IN JOINT ARRANGEMENTS

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 (including joint ventures)	Country of Incorporation	Percentage Owned 31 December 2021	Percentage Owned 31 December 2020
Security Matters Ltd	Israel	100%	100%
Security Matters France LTD	France	100%	-
Yahaloma Technologies Inc.	Canada	50%	50%
True Gold Consortium Pty Ltd	Australia	46.5%	46.5%
SMX Beverages Pty Ltd	Australia	50%	50%

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

Yahaloma Technologies Inc**.**

On April 30, 2019, Security Matters Ltd. signed an agreement with Trifecta Industries Inc. ("Trifecta"), a Canadian company (and affiliate of Crossworks) for the commercialization of Security Matters Ltd's trace technology in the diamonds and precious stone industry.

Under the terms of the agreement, Security Matters Ltd and Trifecta established a new entity - Yahaloma Technologies Inc. ("Yahaloma"), which is equally held by Security Matters Limited and Trifecta.

Yahaloma will have the exclusive rights and responsibility to commercialize the Security Matters group intellectual property in the area of diamonds or precious stone. As initial working capital for Yahaloma, Trifecta committed to invest US$500,000 for the completion of development milestones, out of which US$250,000 is equity and US$250,000 is a shareholder loan. Security Matters transferred its relevant IP to Yahaloma, at cost of US$250,000. Both parties committed to additional working capital if required.

The transfer of the relevant Security Matters IP from Security Matters Ltd. to Yahaloma resulted in a gain on sale of IP of US$36,043 in 2019.

Management has assessed the transaction and reached the conclusion that the new entity is jointly controlled by Security Matters Limited and Trifecta. Management has further determined that the contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement. The contractual arrangement establishes each party’s share in the profit or loss relating to the activities of the arrangement. The arrangement is a joint venture and the Company's interests in this joint venture is accounted for using the equity method of accounting.

During the period ended 31 December 2021, Yahaloma has continued the development of the SMX technology for the diamonds and precious stones sector. In 2021 the Company recognized equity loss from Yahaloma’s activity at the amount of $101,660. As at 31 December 2021, the carrying amount of the JV in Security Matters' accounts is $112,297.

SMX Beverages Pty Ltd

On February 10, 2020 Security Matters Limited signed an agreement with Global BevCo Pty Ltd, an Australian company for the commercialization of Security Matters trace technology in the alcoholic beverages industry. Under the terms of the agreement, SMX and Global BevCo established a new private entity (SMX Beverages Pty or "SMX-B"), which is equally held by the above two mentioned groups. The Company has the exclusive rights and responsibility to commercialize the SMX intellectual property in the area of alcoholic beverages.

The joint arrangement is a joint venture and the Company's interests in its associate is accounted for using the equity method of accounting. Security Matters and Global BevCo are each committed to invest A$50,000 as initial working capital for the entity. During the period SMX-B has not yet started its operations.

As at 31 December 2021, the carrying amount of the joint venture in Security Matters' accounts is $34,315 (A$39,730).

As for the acquisition of additional 50% of SMXB after the reporting period, see note 28.

True Gold Consortium Pty Ltd

On July 29 2020, Security Matters Limited signed a shareholders agreement with W.A. Mint Pty Ltd. (a subsidiary of Gold Corp) and True Gold Consortium Pty Ltd. (the "**Company"**). The Company is an Australian entity that was founded by SMX on 4 June 2020.

The purpose of the agreement is to set the framework for the Company activity. The Company's goal is to establish an industry standard with the development of an innovative system that can mark (at a molecular level), track and trace gold bars and gold through every stage of the supply chain with blockchain technology.

Under the terms of the agreement, the Company will be equally held by the above two mentioned groups, with the goal of adding other shareholders. After the shareholder agreement was signed, the Company issued shares to founding partners according, with SMX shares representing 46.5% of shares.

Management has assessed the transaction and reached the conclusion that the new entity is jointly controlled by Security Matters Limited and W.A. Mint Pty Ltd. Management has further determined that the contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement. The contractual arrangement establishes each party's share in the profit or loss relating to the activities of the arrangement. The arrangement is a joint venture and the Company's interests in this joint venture is accounted for using the equity method of accounting.

Security Matters France

Security Matters France was founded in June 2021 for commercializing the group's activity in EU. During the period SMX France has not yet started its operations.

Joint operation	**Principal place of business**	**Nature of activity**
SMX-BASF joint Development Agreement	Israel and Germany	Develop solutions for plastic traceability and circularity

Reconciliation of the consolidated entity's carrying amount

	2021 **US$**	**2020** **US$**
Security Matters Limited's share of Net Assets	248,272	284,659
Deferred gain from sale of IP	--	(36,043)
Company's share in net losses of joint ventures	(101,660)	(344)
Closing carrying amount	**146,612**	**248,272**

NOTE 12 - INTANGIBLE ASSETS:

	Patents US$	Marking and Reading Technology US$	Software and Blockchain US$	Total US$
COST				
At January 1 2021	1,401,851	514,084	273,176	2,189,111
Additions - development costs	718,006	648,533	469,230	1,835,769
At December 31 2021	2,119,857	1,162,617	742,406	4,024,880
Accumulated amortisation				
At January 1 2021	--	88,304	--	88,304
Amortisation	--	28,287	--	28,287
At December 31 2021	--	116,591	--	116,591
Net book value at December 31 2021	**2,119,857**	**1,046,026**	**742,406**	**3,908,289**

	Patents US$	Marking and Reading Technology US$	Software and Blockchain US$	Total US$
COST				
At January 1 2020	906,406	356,072	204,596	1,467,074
Additions - development costs	495,445	158,012	68,580	722,037
At December 31 2020	1,401,851	514,084	273,176	2,189,111
Accumulated amortisation				
At January 1 2020	--	62,008	--	62,008
Amortisation	--	26,296	--	26,296
At December 31 2020	--	88,304	--	88,304
	--			
Net book value at December 31 2020	**1,401,851**	**425,780**	**273,176**	**2,100,807**

The consolidated entity has not yet begun amortisation for its patents as the patent applications have not yet completed their registration process and are not ready for use. The consolidated entity has not yet begun amortisation for its software and blockchain as the development of these is not completed and they are not ready for use.

The recoverable amount of the consolidated entity's intangible assets that are not yet used has been determined by the relief from royalty method, performed by an external valuator based on management's assumptions.

Key assumptions are those to which the recoverable amount of an asset is most sensitive. The following key assumptions were used in the relief from royalty model for the intangible assets not yet in use:

- 25.2% After tax net cash flow discount rate;
- 7.5% Royalty rate;
- 15 years expected life;
- Revenue projection based on management plans for first 4 years, steady for next 5 years (0% growth rate) and decreasing over last 6 years;

The discount rate of 25.2% reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the risk free rate and the volatility of comparable companies' share price relative to market movements.

The royalty rate of 7.5% is based on actual average royalty rates of related technology.

The expected life was determined based on the fact that the technology is revolutionary and is reasonable based on the patent life span of 15 years.

NOTE 13 – LEASES:

The Group has lease contracts for office facilities (including a lab) and motor vehicles used in its operations. Leases of office and lab facilities generally have lease term of 12 years, motor vehicles generally have lease terms of 3 years.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Office and lab facilities	Motor vehicles	Total
At January 1, 2021	456,911	20,624	477,535
Additions	58,893	206	59,099
Deductions	--	--	--
Depreciation expense	(53,088)	(19,206)	(72,294)
As at December 31, 2021	462,716	1,624	464,340

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2021	2020
At January 1,	537,805	82,562
Additions	--	481,169
Deductions	--	(42,381)
Accretion of interest	47,099	28,965
Foreign exchange differences	16,524	-
Lease Payments	(98,063)	(12,510)
As at December 31,	503,365	537,805
Current	37,553	52,650
Non-current	465,812	485,155

The following are the amounts recognized in profit or loss:

	2021	2020
Depreciation expense of right-of-use assets	72,294	47,307
Interest expense on lease liabilities	47,099	28,965
Foreign Exchange Movement	16,524	-
Expense relating to short-term leases	-	101,936
Total amount recognized in profit or loss	135,917	178,208

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

NOTE 14 - OTHER ACCOUNTS PAYABLE:

	2021 US$	2020 US$
Employees, salaries and related liabilities	499,814	350,169
Accrued expenses	48,775	129,820
Liabilities for grants received (Note 21)	29,648	20,141
Related party (Note 19)	24,170	19,034
Derivative financial liability	32,705	-
Other	37,765	34,088
Total	**672,877**	**553,252**

NOTE 15 - BORROWINGS FROM RELATED PARTIES:

In 2015, the Group signed an agreement to receive a loan of ILS 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 a binding agreement with its shareholders according to which the loan will be repaid in eight equal quarterly installments commencing November 1, 2018.

	2021 US$	2020 US$
Balance at 1 January	**279,939**	**405,093**
Payment of borrowings	(103,532)	(144,258)
Provision for bonus	87,311	--
Interest	2,062	2,200
Exchange rate differences	3,531	16,904
Balance at 31 December	**269,311**	**279,939**

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$ 965K) 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$ 989K) (**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 the amount of US$87,311 as of 31 December 2021.

NOTE 16– ISSUED CAPITAL:

Movements in ordinary Capital

	Date	Number of shares	Unit Price US$	Share Capital US$
Balance as at 1 January 2021[i]		139,291,043		21,880,805
Issuance of new shares	03/01/2021	39,475	-	-
Issuance of new shares	03/02/2021	300,000	0.23	68,577
Issuance of new shares	10/02/2021	300,000	0.23	69,568
Issuance of new shares	19/02/2021	300,000	0.23	70,250
Issuance of new shares	27/04/2021	174,744	0.16	27,192
Issuance of new shares	06/05/2021	200,000	0.23	46,530
Issuance of new shares	07/05/2021	83,503	0.28	23,244
Issuance of new shares	17/05/2021	11,940,287	0.27	3,238,534
Issuance of new shares	20/05/2021	200,000	0.23	46,518
Issuance of new shares	21/05/2021	380,162	0.27	103,207
Issuance of new shares	03/06/2021	1,842,857	0.27	499,955
Issuance of new shares	14/06/2021	1,106,943	0.27	299,955
Issuance of new shares	29/07/021	300,000	0.22	66,498
Issuance of new shares	13/10/2021	333,333	0.22	73,552
Issuance of new shares	14/10/2021	333,333	0.22	74,135
Issuance of new shares	15/10/2021	511,667	0.22	113,869
Issuance of new shares	18/10/2021	166,667	0.22	36,920
Issuance of new shares	19/10/2021	7,593,666	0.22	1,672,729
Issuance of new shares	31/12/2021	134,584	0.2185	29,973
Capital raising costs		--		(220,834)
Balance as at 31 December 2021		**165,532,264**		**28,221,177**

	Date	Number of shares	Unit Price US$	Share Capital US$
Balance as at 1 January 2020[i]		109,991,348		14,987,577
Issuance of new shares	12/03/2020	14,705,883	0.22	3,228,500
Issuance of new shares	25/03/2020	4,173,764	0.22	852,441
Issuance of new shares	29/05/2020	207,246	0.17	35,881
Issuance of new shares	23/11/2020	5,529,175	0.28	1,538,930
Issuance of new shares	25/11/2020	2,000,000	0.28	564,384
Issuance of new shares	29/12/2020	2,683,627	0.31	845,813
Capital raising costs		--		(172,721)
Balance as at 31 December 2020		**139,291,043**		**21,880,805**

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.

Capital management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

NOTE 17 – RESERVES:

Share based compensation

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

Option granted in Security Matters Ltd.

a) Share Based Payment Reserve	**2021 US$**	**2020 US$**
54,060,781 (31 December 2020: 47,864,487) options on issue	4,730,781	4,299,869

b) Movement in Share Based Payment Reserve

	Number of Options	**US$**
Opening balance on 1 January 2020	35,608,464	2,370,145
Issue of options	19,304,127	2,063,427
Forfeit and exercise of Options	(7,048,104)	(133,703)
Closing balance on 31 December 2020	**47,864,487**	**4,299,869**
Issue of options (Note 18)	11,886,331	687,133
Forfeit and exercise of Options	(5,690,037)	(256,221)
Closing balance on 31 December 2021	**54,060,781**	**4,730,781**

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of operations in Australia to US dollars (the presentation currency).

	2021 US$	**2020 US$**
Foreign currency translation reserve	223,026	274,588

NOTE 18 – SHARE BASED PAYMENTS

The Option grants from 2021 were issued under the following terms and conditions:

100,000 Options to consultant of the Group granted on 4 Jan 2021:

FV per option or right at grant date;	A$0.20
Exercise price per share or unit;	A$0.5
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	04/01/2024
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

1,000,000 Options to consultant of the Group granted on 4 Jan 2021:

FV per option or right at grant date;	A$0.16
Exercise price per share or unit;	A$0.7
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	04/01/2024
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the company.
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

500,000 Options to consultant of the Company granted on 04 Jan 2021:

FV per option or right at grant date;	A$0.18
Exercise price per share or unit;	A$0.6
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	04/01/2024
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

250,000 Options to consultant of the Company granted on 22 March 2021:

FV per option or right at grant date;	A$0.24
Exercise price per share or unit;	A$0.355
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	21/03/2026
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

250,000 Options to consultant of the Company granted on 22 March 2021:

FV per option or right at grant date;	A$0.24
Exercise price per share or unit;	A$0.355
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	21/03/2026
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

1,000,000 Options to consultant of the Group granted on 07 September 2021:

FV per option or right at grant date;	A$0.18
Exercise price per share or unit;	A$0.6
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	06/09/2024
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

850,000 Options to Employees of the Group granted on 18 July 2021:

FV per option or right at grant date;	A$0.27
Exercise price per share or unit;	A$0.351
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	17/7/2026
Date or dates when the options or rights may be exercised;	N/A
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company and If an amount of USD 20 million or more is raised in one raise all options will become vested.
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

150,000 Options to Employee of the Group granted on 18 July 2021:

FV per option or right at grant date;	A$0.27
Exercise price per share or unit;	A$0.351
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	17/07/2026
Date or dates when the options or rights may be exercised;	N/A
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company and If an amount of USD 20 million or more is raised in one raise all options will become vested.
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

100,000 Options to Employees of the Group granted on 27 September 2021:

FV per option or right at grant date;	A$0.21
Exercise price per share or unit;	A$0.351
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	26/09/2026
Date or dates when the options or rights may be exercised;	N/A

A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company and If an amount of USD 20 million or more is raised in one raise all options will become vested.
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

50,000 Options to Employees of the Company granted on 27 September 2021:

FV per option or right at grant date;	A$0.17
Exercise price per share or unit;	A$0.70
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	26/07/2026
Date or dates when the options or rights may be exercised;	N/A
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

167,000 Options to Director of the Company granted on 6 December 2021:

FV per option or right at grant date;	A$0.20
Exercise price per share or unit;	A$0.70
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	06/12/2026
Date or dates when the options or rights may be exercised;	N/A
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Company raises an aggregated amount of at least USD 10 million in one raise (including by way of a merger with a company with such amount in its treasury) 80% of the options will become vested. If an amount of USD 20 million or more is raised in one raise all options will become vested.
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

500,000 Options to Director of the Company granted on 6 December 2021:

FV per option or right at grant date;	A$0.20
Exercise price per share or unit;	A$0.70
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	06/12/2026
Date or dates when the options or rights may be exercised;	N/A
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Company raises an aggregated amount of at least USD 10 million in one raise (including by way of a merger with a company with such amount in its treasury) 80% of the options will become vested. If an amount of USD 20 million or more is raised in one raise all options will become vested.
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

1,150,000 Options to consultant of the Company granted on 10 December 2021:

FV per option or right at grant date;	A$0.01
Exercise price per share or unit;	A$0.40
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	21/03/2022

Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

1,150,000 Options to consultant of the Company granted on 10 December 2021:

FV per option or right at grant date;	A$0.16
Exercise price per share or unit;	A$0.35
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	10/12/2023
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

4,469,331 Options to Various Investors of the Company granted on 10 December 2021:

FV per option or right at grant date;	A$0.01
Exercise price per share or unit;	A$0.40
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	31/03/2022
Date or dates when the options or rights may be exercised;	Fully vested.
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	N/A
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

200,000 Options to Employees of the Company granted on 01 June 2021 :

FV per option or right at grant date;	A$0.21
Exercise price per share or unit;	A$0.351
Amount, if any, paid or payable by the recipient;	N/A
Expiry date;	31/05/2026
Date or dates when the options or rights may be exercised;	N/A
A summary of the service and performance criteria that must be met before the beneficial interest vests in the person.	Must remain an employee or consultant of the Company
Class and number of equity instruments for which options/rights may be exercised	Ordinary Shares

Fair Value

The Black Scholes option pricing model was used to determine the fair value of the options issued. The Black Scholes inputs and valuations were as follows:

Options granted

Number of options	100,000	1,000,000	500,000	250,000
Grant date	04/01/2021	04/01/2021	04/01/2021	22/03/2021
Issue date	04/01/2021	04/01/2021	04/01/2021	22/03/2021
Exercise price US$	0.386	0.540	0.463	0.274
Expected volatility	85.59%	85.59%	85.59%	101.11%
Implied option life	3.00	3.00	3.00	5.00
Expected dividend yield	0%	0%	0%	0%
Risk free rate	0.11%	0.11%	0.11%	0.75%
Valuation per option A$	0.20	0.16	0.18	0.24

Exchange rate	0771	0.771	0.771	0.771
Valuation per option US$	0.15	0.13	0.14	0.19
Total valuation US$	15,136	127,231	69,126	46,568

Number of options	250,000	1,000,000	850,000	150,000
Grant date	22/03/2021	07/09/2021	18/07/2021	18/07/2021
Issue date	22/03/2021	07/09/2021	18/07/2021	18/07/2021
Exercise price US$	0.274	0.439	0.257	0.257
Expected volatility	101.11%	118.53%	106.59%	107.64%
Implied option life	5.00	3.00	4.45	4.01
Expected dividend yield	0%	0%	0%	0%
Risk free rate	0.75%	0.29%	0.62%	0.59%
Valuation per option A$	0.24	0.18	0.27	0.27
Exchange rate	0.771	0.732	0.732	0.732
Valuation per option US$	0.19	0.13	0.20	0.20
Total valuation US$	46,568	131,714	167,935	29,636

Number of options	100,000	50,000	167,000	500,000
Grant date	27/09/2021	27/09/2021	06/12/2021	06/12/2021
Issue date	27/09/2021	27/09/2021	06/12/2021	06/12/2021
Exercise price US$	0.257	0.512	0.512	0.512
Expected volatility	105.63%	115.61%	102.12%	102.12%
Implied option life	4.26	3.19	5.00	5.00
Expected dividend yield	0%	0%	0%	0%
Risk free rate	0.64%	0.32%	0.66%	0.66%
Valuation per option A$	0.21	0.17	0.20	0.20
Exchange rate	0.732	0.732	0.732	0.732
Valuation per option US$	0.15	0.12	0.15	0.16
Total valuation US$	15,367	6,220	24,440	73,174

Number of options	1,150,000	1,150,000	4,469,331	200,000
Grant date	10/12/2021	10/12/2021	10/12/2021	01/06/2021
Issue date	10/12/2021	10/12/2021	10/12/2021	01/06/2021
Exercise price US$	0.293	0.256	0.293	0.257
Expected volatility	63.75%	109.64%	63.75%	109.10%
Implied option life	0.28	2.00	0.30	3.88
Expected dividend yield	0%	0%	0%	0%
Risk free rate	0.13%	0.38%	0.13%	0.29%
Valuation per option A$	0.01	0.16	0.0.01	0.21
Exchange rate	0.732	0.732	0.732	0.732
Valuation per option US$	0.01	0.12	0.0.01	0.15
Total valuation US$	8,415	134,641	32,704	30,733

Details of Options outstanding

Grant date	Expiry date	Exercise price	Balance at beginning of year	Granted during the period	Exercised during the period	Forefited/ expired during the period	Balance at end of period	Exercisable at end of year
04/04/2017	01/09/2023	A$0.2	945,226	--	--	--	945,226	945,226
18/06/2017	01/09/2023	A$0.2	829,507	--	--	--	829,507	829,507
11/01/2018	01/09/2023	A$0.2	773,366	--	--	--	773,366	773,366
15/03/2018	01/09/2023	A$0.2	975,586	--	--	--	975,586	975,586
08/10/2018	14/10/2023	A$0.2	7,196,382	--	174,744	--	7,021,638	7,021,638
08/10/2018	14/10/2021	A$0.3	5,515,293	--	1,600,000	3,915,293	--	--
08/10/2018	14/10/2023	A$0.2	10,000,000	--	--	--	10,000,000	--
27/05/2019	28/01/2024	A$0.31	600,000	--	--	--	600,000	600,000
27/05/2019	28/01/2022	A$0.31	250,000	--	--	--	250,000	250,000
27/05/2019	27/05/2022	A$0.31	250,000	--	--	--	250,000	250,000
04/06/2019	14/10/2021	A$0.4	500,000	--	--	--	500,000	500,000
05/06/2019	05/06/2024	A$0.31	125,000	--	--	--	125,000	125,000
14/06/2019	14/06/2022	A$0.5	200,000	--	--	--	200,000	200,000
02/10/2019	01/10/2022	A$0.5	100,000	--	--	--	100,000	100,000
02/10/2019	01/10/2022	A$0.31	300,000	--	--	--	300,000	300,000
01/01/2020	31/12/2024	A$0.36	50,000	--	--	--	50,000	50,000
01/01/2020	31/12/2025	A$0.36	105,000	--	--	--	105,000	105,000
28/01/2020	27/01/2025	A$0.39	150,000	--	--	--	150,000	150,000
12/03/2020	12/03/2023	A$0.6	4,926,466	--	--	--	4,926,466	4,926,466
25/03/2020	25/03/2023	A$0.6	1,391,255	--	--	--	1,391,255	1,391,255
31/03/2020	26/03/2025	A$0.34	300,000	--	--	--	300,000	300,000
31/03/2020	26/03/2025	A$0.6	200,000	--	--	--	200,000	200,000
31/03/2020	26/03/2025	A$0.34	150,000	--	--	--	150,000	150,000
31/03/2020	26/03/2025	A$0.34	250,000	--	--	--	250,000	250,000
29/05/2020	28/05/2025	A$0.2	2,500,000	--	--	--	2,500,000	2,500,000
29/05/2002	29/05/2023	A$0.6	3,250,000	--	--	--	3,250,000	3,250,000
25/10/2020	25/10/2023	A$0.36	100,000	--	--	--	100,000	100,000
23/11/2020	23/11/2023	A$0.6	3,089,591	--	--	--	3,089,591	3,089,591
27/11/2020	27/11/2023	A$0.6	1,000,000	--	--	--	1,000,000	1,000,000
27/11/2020	27/11/2023	A$0.6	500,000	--	--	--	500,000	500,000
29/12/2020	29/12/2023	A$0.5	1,341,815	--	--	--	1,341,815	1,341,815
04/01/2021	04/01/2024	A$0.7	--	100,000	--	--	100,000	100,000
04/01/2021	04/01/2024	A$0.6	--	1,000,000	--	--	1,000,000	1,000,000
04/01/2021	04/01/2024	A$0.5	--	500,000	--	--	500,000	500,000
22/03/2021	22/03/2026	A$0.355	--	250,000	--	--	250,000	250,000
22/03/2021	22/03/2026	A$0.355	--	250,000	--	--	250,000	250,000
01/06/2021	01/06/2026	A$0.351	--	200,000	--	--	200,000	200,000
18/07/2021	18/07/2026	A$0.351	--	850,000	--	--	850,000	--
18/07/2021	18/07/2026	A$0.351	--	150,000	--	--	150,000	--
06/12/2021	06/12/2026	A$0.7	--	167,000	--	--	167,000	--

06/12/2021	06/12/2026	A$0.7	--	500,000	--	--	500,000	--
07/09/2021	07/09/2024	A$0.6	--	1,000,000	--	--	1,000,000	1,000,000
27/09/2021	27/09/2026	A$0.351	--	100,000	--	--	100,000	-
27/09/2021	27/09/2026	A$0.7	--	50,000	--	--	50,000	50,000
10/12/2021	21/03/2021	A$0.4	--	1,150,000	--	--	1,150,000	1,150,000
10/12/2021	10/12/2023	A$0.35	--	1,150,000	--	--	1,150,000	1,150,000
10/12/2021	31/03/2022	A$0.4	--	4,469,331	--	--	4,469,331	4,469,331
Total			**47,864,487**	**11,886,331**	**1,774,744**	**3,915,293**	**54,060,781**	**42,293,781**

NOTE 19 - RELATED PARTIES:

Liabilities to related parties at December 31 (excluding remuneration)

	2021 US$	2020 US$
Kibbutz Ketura [i]	(24,170)	(19,034)
Kibbutz Degania A [i]	--	--
	(24,170)	**(19,034)**

Key Management Personnel Compensation

The totals of remuneration paid to KMP during the year are as follows:

	2021 US$	2020 US$
Short-term salary and fees	475,243	279,799
Non-monetary benefits	11,259	10,632
Post-Employment Retirement Benefits	92,324	47,500
Share based payments	104,241	360,935
	683,067	**698,866**

Other related party transactions

Entity / Key management personnel	**Nature of transactions**	**Transaction value**		**Payable balance**	
		2021 US$	**2020 US$**	**2021 US$**	**2020 US$**
Kibbutz Ketura [i]	Interest for shareholder borrowings (note 15)	1,031	1,100	--	--
Kibbutz Degania A	Interest for shareholder borrowings (note 15)	1,031	1,100	--	--
Kibbutz Ketura [i]	Payment for Administrative services	39,225	57,944	24,170	19,034

[i] Kibbutz Ketura is an entity associated with Mr Ed Hofland and Kibbutz Degania A is an entity associated with Mr Amir Bader.

NOTE 20 – PARENT ENTITY FINANCIAL INFORMATION

The following information of the legal parent Security Matters Limited has been prepared in accordance with Australian Accounting Standards and the accounting policies as outlined in Note 2.

(a) Financial Position of Security Matters Limited

	2021 US$	2020 US$
Assets		
Current Assets	3,671,157	3,287,488
Non-Current Assets	147,524	249,184
Total Assets	**3,818,681**	**3,536,672**
Liabilities		
Current Liabilities	463,720	334,125
Non-Current Liabilities	-	-
Total Liabilities	**463,720**	**334,125**
Net Assets	**3,354,961**	**3,202,547**
Shareholders' Equity		
Issued Capital	28,250,787	21,880,805
Share based payment reserve	4,763,486	4,299,869
Foreign currency translation reserve	267,302	1,436,283
Accumulated losses	(29,926,614)	(24,414,410)
Shareholders' Equity	**3,354,961**	**3,202,547**

(b) Statement of profit or loss and other comprehensive income

Loss for the year	(5,512,204)	(8,660,475)
Other comprehensive loss	(7,286)	1,550,025
Total comprehensive loss	**(5,519,490)**	**(7,110,450)**

(c) Guarantees entered into by Security Matters Limited for the debts of its subsidiary

There are no guarantees entered into by Security Matters Limited.

(d) Commitments for the acquisition of property, plant and equipment by Security Matters Limited

There were no commitments for the acquisition of property, plant and equipment as of 31 December 2021

NOTE 21 – GOVERNMENT GRANTS

The Government of Israel encourages research and development projects oriented towards products for export or projects which will otherwise benefit the Israeli economy. This is conducted via the Office of the Chief Scientist (OCS).

The Company has one approved project with the OCS (project number 55715 approved 23 November, 2015) of a 40% grant out of a project of up to ILS 1,551,825 (~US$ 400,000 at the time) under which it received ILS 547,596 (~US$ 142,000 at the time) in 2016 and ILS 62,269 (~US$ 17,000 at the time) in 2017. The Company passed a final review by the OCS and no additional funding is expected to be received under the project.

The Company is subject to paying 3% of its relevant revenues for the first three years, and 4% of the relevant revenues for further years, until repayment of the entire grant, being ILS 609,865 (equivalent to approximately US$196,000).

The Company measured the fair value of its governmental liabilities on grants received, each period, based on discounted cash flows derived from Company's future anticipated revenues.

	2021 US$	2020 US$
Short term Liability at year end	29,648	20,141
Long Term Liability at year end	84,858	88,990
Total	**114,506**	**109,131**

NOTE 22 – AUDITOR REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its subsidiaries, its related practices and non-related audit firms:

	2021 US$	2020 US$
Audit Remuneration		
Auditing and reviewing the financial reports (BDO Audit Pty ltd) – Australia	54,375	48,239
Auditing and reviewing the financial reports (BDO Ziv Haft) – Israel	68,000	58,000
Total	**122,375**	**106,239**
Other non-audit remuneration		
Tax support (BDO Audit Pty ltd) – Australia	--	3,250
International and local tax support (BDO Ziv Haft) – Israel		--
Total	--	**3,250**

NOTE 23 – 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 (including joint ventures)	Country of Incorporation	Percentage Owned 31 December 2021	Percentage Owned 31 December 2020
Security Matters Ltd	Israel	100%	100%
Security matters France Ltd	France	100%	N/A

NOTE 24 – PROVISIONS

	2021 US$	2020 US$
Opening net carrying amount	--	6,553
Increase (decrease) in provision	--	(6,553)
Closing net carrying amount	--	--

Provisions relate to long-term employee benefits.

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES:

As part of the Board’s ongoing regulatory compliance process, the Board continues to monitor legal and regulatory developments and their potential impact on the Company. Management is not aware of any contingencies that may have a significant impact on the financial position of the Company.

The Company leases its offices and laboratory under an operating lease agreement, as well as two company cars which are all recognised within lease balances in the financial statements.

As Described in note 15 borrowings from related parties, the Company is committed to pay a bonus payment upon achieving certain goals. 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 the amount of US$87,311 as of 31 December 2021.

The Maximum future bonus payment payable by the company is ILS 6,000,000 (US$1,929,260 as of 31 December 2021 and US$1,866,252 as of 31 December 2020).

As Described in note 21 Government grants, the Company has a liability of US$114,506 for the Office of the Chief Scientist of Israel (OCS), for grants received to fund an approved research and development project.

NOTE 26 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the New Israeli Shekel ("ILS"). The Company's policy is not to enter into any currency hedging transactions.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	2021	2020	2021	2020
	US$	US$	US$	US$
ILS	602,294	1,120,033	1,361,801	1,014,107
Euro	135,589	270,948	--	--
	737,883	**1,390,981**	**1,361,801**	**1,014,107**

Sensitivity analysis

A 10% strengthening of the United States Dollar against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity. 10% is chosen due to the USD-ILS stability over the last 24 months.

	2021	2020
	US$	US$
Assets less liabilities held in ILS	(759,507)	105,926
	10%	*10%*
	(75,951)	**10,593**

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity is not exposed to any significant interest rate risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral. To mitigate the risk of default the consolidated entity deposits its cash with leading banks in Israel and Australia.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2021	2020
	US$	US$
Cash and cash equivalents	4,171,125	4,340,733
Other receivables	920,506	438,605
Total	**5,091,631**	**4,779,338**

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable. The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

2021:

	Interest rate %	Less than 6 months **US$**	6-12 months **US$**	12-18 months **US$**	18-24 months **US$**	2-5 years **US$**	Over 5 years **US$**
Financial liabilities at amortised cost							
Trade and other payables	--	1,589,398	--	--	--	--	--
Lease liability		18,776	18,776	20,099	21,040	231,581	193,093
Borrowings	4%	182,000	87,311	--	--	--	--
Total		**1,790,174**	**106,087**	**20,099**	**21,040**	**231,581**	**193,093**

2020:

	Interest rate %	Less than 6 months **US$**	6-12 months **US$**	12-18 months **US$**	18-24 months **US$**	2-5 years **US$**	Over 5 years **US$**
Financial liabilities at amortised cost							
Trade and other payables	--	1,068,294	--	--	--	--	--
Lease liability		26,325	26,325	22,504	22,504	182,619	257,529
Borrowings	4%	139,969	139,969	--	--	--	--
Total		**1,234,588**	**166,294**	**22,504**	**22,504**	**182,619**	**257,529**

NOTE 27 – FAIR VALUE MEASUREMENT:

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

2021	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Liabilities				
Derivative financial liability	--	32,705	--	32,705
Provision for bonus	--	87,311	--	87,311
Liabilities for grants received	--	114,506	--	114,506
Total	--	**234,522**	--	**234,522**

2020	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Liabilities				
Derivative financial liability	--	--	--	--
Provision for bonus	--	--	--	--
Liabilities for grants received	--	109,131	--	109,131
Total	--	**109,131**	--	**109,131**

NOTE 28 – SUBSEQUENT EVENTS:

Since the reporting date the following significant events have occurred:

1. On December 24, 2021, SMX signed an agreement with Global BevCo to acquire the remaining 50% in SMX Beverages Pty Ltd (SMXB). Global BevCo Unit Trust currently holds 50% of the shares in SMXB and SMX holds the other 50%. The acquisition of the 50% shares in SMXB is in exchange for 8M options of SMX Limited at exercise price of AU$0.4. The acquisition agreement also provides a consulting agreement to Global BevCo including a A$13,500 per month retainer and a 5% revenue share for referred clients. The closing date of the transaction is expected to be reached in March 2022.

2. The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not adversely impacts the Company up to 31 December 2021, it is not practicable to estimate the potential impact, positive or negative after the reporting date. The situation is rapidly developing and is dependent on measures imposed by Governments, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than the above, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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 19 to 54, are in accordance with the *Corporations Act 2001* and:

   a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 2 to the financial statements, constitutes compliance with International Financial Reporting Standards; and

   b. give a true and fair view of the financial position as at 31 December 2021 and of the performance for the period ended on that date of the company;

2. The directors have been given the declarations required by s295A of the Corporations Act 2001.

3. 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 295(5)(a) of the Corporations Act 2001

Director ....

Haggai Alon

Dated this 25 day of March 2022

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INDEPENDENT AUDITOR'S REPORT

To the members of Security Matters Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Security Matters Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audit Strategy for Overseas Operations

Key audit matter	*How the matter was addressed in our audit*
The Group's corporate structure comprises significant overseas operations. The existence of such operations increases the importance of engagement with component auditors to mitigate the risk associated with delivering an audit in a location and regulatory environment other than Australia. Given the material impact of the overseas operations, the audit risks associated with balances in the overseas subsidiary and level of interaction between ourselves and the component auditors, we determined that this was a key audit matter.	Our audit procedures included, amongst others: • Gained an understanding of the Group, its components and the environment it operates in to identify the risks of material misstatement to the Group's financial report. • Engaged the use of BDO component auditors in Israel. • Confirmed the component auditors' understanding of ethical requirements, their professional competence and independence. • Maintained regular communication with the component auditors in order to identify issues that were significant to the Group throughout the audit process. • Assessed the susceptibility of the component's financial information to material misstatement from fraud and error. • Reviewed a sample of component auditor working papers and deliverables, in particular the areas that were key to the Group audit.

Going Concern

Key audit matter	*How the matter was addressed in our audit*
Note 1 of the financial statements outlines the basis of preparation of the financial statements which indicates being prepared on a going concern basis which contemplates that the group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. As the group generates no revenue and is reliant on funding from other sources such as capital raising, there is significant judgement involved in determining whether the going concern basis adopted is appropriate and is critical to the understanding of the financial statements as a whole. As a result, this matter was considered key to our audit.	Our audit procedures included, amongst others: • Obtaining and evaluating management's assessment of the group's ability to continue as a going concern. • Assessing the cash flow forecasts provided by management and challenged the assumptions therein to ensure consistency with management's stated business and operational objectives. • Assessing the accuracy of the forecasts by comparing previous forecasts with the Group's actual results. • Reviewed the going concern position of the group with reference to the applicable Auditing Standards and through consultation with our Audit and Assurance Specialists.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 17 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Security Matters Limited, for the year ended 31 December 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

Tim Fairclough

BDO

Tim Fairclough

Director

Melbourne, 25 March 2022

Corporate Governance Statement

The Board of Directors of Security Matters Limited (SMX or **the Company**) is responsible for the corporate governance of the Company and its subsidiaries. The Board guides and monitors the business and affairs of SMX on behalf of the Shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the 4th Edition of the ASX Corporate Governance Council's Principles and Recommendations.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

	Corporate Governance Council Recommendation	**Compliance**	**Disclosure**
1.1	A listed entity should disclose: 1. the respective roles and responsibilities of its board and management; and 2. those matters expressly reserved to the board and those delegated to management.	Complies	The Board is responsible for the overall corporate governance of the Company's business. The Board is responsible for the overall corporate governance of the Company, including establishing and monitoring key performance goals. The Board monitors the operational and fnancial position and performance of the Company and oversees its business strategy including, approving the strategic goals of the Company and considering and approving an annual business plan, including a budget. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and fnancial return, and sustaining the growth and success of the Company. In conducting the Company's business with these objectives, the Board seeks to ensure that the Company is properly managed to protect and enhance Shareholder interests, and that the Company, its Directors, offcers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing the Company, including adopting relevant internal controls, risk management processes and corporate governance policies and practices, which it believes, are appropriate for the Company's business and which are designed to promote the responsible management and conduct of the Company. The Board has adopted a Board Charter to outline the manner in which its consitutional powers and responsibiliites will be exercised and discharged. The CEO is responsible for running the day to day affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out these responsibilities, the CEO must report to the Board in a timely and clear manner and ensure all reports to the Board present a true and fair view of the Company's fnancial condition and operational results. The role of management is to support the CEO and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

1.2	A listed entity should: • undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and • provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Complies	The Board is responsible for ensuring it is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and the best standards of governance. This will necessarily include undertaking background and other checks before appointing a person or putting them forward to security holders as a candidate for election as a Director, as well as providing all material information relevant to a decision for election as a Director. The qualifications, experience and special responsibilities of the Board Members are set out in the Directors' Report of the Financial Statements for the year ended 31 December 2021
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Complies	On appointment of a Director or senior executive, the Company issues a letter of appointment setting out the terms and conditions of their appointment to the Board and Company. The Directors and senior executives have received a letter setting out the terms of their appointment.
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Complies	The Company Secretary is appointed by the Board and is responsible for developing and maintaining the appropriate governance systems and processes for the Board to fulfil its role and is responsible to the Board for ensuring compliance with Board procedures and governance matters. The Company Secretary is also responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. The Company Secretary is Mark Licciardo.
1.5	A listed entity should: (a) have and disclose a diversity policy; (b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and (c) disclose in relation to each reporting period: (1) the measurable objectives set for that period to achieve gender diversity;	Complies in part	Security Matters has a Diversity Policy, a copy of which is available on Security Matters Corporate Website. The Company recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity and equal opportunity. Diversity drives the Company's ability to attract, retain and develop the best talent, create an engaged workforce, deliver the highest quality services to its customers and continue to grow the business. The Company promotes diversity through inclusive practices and behaviours for the benefit of all staff, improved employment and career development opportunities for women, and a work environment that values and utilises the contributions of all employees. As a measurement of gender diversity, the proportion of women employees in the entity as at 31 December 2021 are as follows: Women on the Board: 40% Women in senior executive roles: 71% Women in management position: 71% Women in the organisation: 71%

	(2) the entity's progress towards achieving those objectives; and (3) either: (A) the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or (B) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. If the entity was in the S&P / ASX 300 Index at the commencement of the reporting period, the measurable objective for achieving gender diversity in the composition of its board should be to have not less than 30% of its directors of each gender within a specified period.		The Company is not a relevant employer under the Workplace Gender Equality Act.
1.6	A listed entity should: 1. have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and 2. disclose, for each reporting period whether a performance evaluation has been undertaken in accordance with	Does not comply	SMX has considered adopting a performance evaluation process in relation to the Board and its Committees. The performance of the Board, its Committees and the individual Directors is subject to regular review.

	that process during or in respect of that period.		
1.7	A listed entity should: 1. have and disclose a process for periodically evaluating the performance of its senior executives at least once every reporting period; and 2. disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.	Complies	3. The Company's senior executives, including the CEO, are evaluated on their performance on a yearly basis in line with the Company's performance evaluation plan and risk management process. Agreed upon strategic objectives must be met by senior executives as part of their key performance targets. The Chief Executive Officer (CEO) then reviews the performance of the senior executives against those objectives. These reviews occur annually. 4. A performance evaluation was undertaken during the reporting period .

PRINCIPLE 2 – STRUCTURE THE BOARD TO BE EFFECTIVE AND ADD VALUE

2.1	The board of a listed entity should: 1. have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the	Complies	The Company has a Remuneration and Nomination Committee (RNC). The RNC Comprises of two independent directors (Kathryn Davies (Chair) and Jovanka Naumoska) and one non-independent director (Amir Bader). 1.1.1. The Chair of the RNC is currently an independent non-executive director. The RNC Charter is available on the website of the Company. At the end of each reporting period, the Company discloses in its annual report the number of times the committee met throughout the period and the individual attendances of the members at those meetings is to be disclosed.

	committee met throughout the period and the individual attendances of the members at those meetings; or 2. if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.		
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership.	Complies in part	The Company supports the appointment of Directors who bring a wide range of business and professional skills and experience. While the Company does not have or disclose a formal skills matrix it does consider Directors' attributes prior to any appointment. The qualifications, skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report and their attendance at Board meetings is included in the Directors' Report. The Board has an extensive range of knowledge and skills with relevant experience as detailed in the Annual Report for the year ended 31 December 2021.
2.3	A listed entity should disclose: 1. the names of the directors considered by the board to be independent directors; 2. if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendations but the board is of the opinion that it does not compromise	Complies	The Directors considered by the Board to be independent are set out in the Directors' Report of the Annual Report. The Board has adopted a definition of independence based on that set out in Principle 2 of the ASX Corporate Governance Council Principles and Recommendations. The Board considers Non-Executive Directors, Jovanka Naumoska and Kathryn Davies }, free from any business or any other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement and so each is considered an independent Director. The length of service for each Director is detailed in the Director's Report of the Annual Report.

	the independence of the director, the nature of the interest, position or relationship in question and an explanation of why the board is of that opinion; and 3. the length of service of each director.		
2.4	A majority of the board of a listed entity should be independent directors.	Does not comply	Currently only Jovanka Naumoska and Kathryn Davies are considered by SMX to be independent Directors. Accordingly, the majority of the Board will not be independent. The Board believes that the composition of its Board is appropriate for SMX having regard to the size and operations and skill set of the Company's Directors both individually and collectively. However the Board will periodically review the size and composition of its Board with a view to making further appointments (which may include further independent Directors) at appropriate times. The Board believes that independent judgment is achieved and maintained in respect of its decision-making processes. Furthermore, all Directors are entitled to seek independent professional advice as and when required. The Directors believe that they are able to objectively analyse the issues before them in the best interests of all shareholders and in accordance with their duties as Directors.
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	Does not comply	The Chair of SMX is Everardus (Ed) Hofland who is an Executive Director. Given the Company's current size and its operations, SMX is of the view that Ed Hofland is the most appropriate person to lead the Company as Executive Director and Chairman, and will bring appropriate judgement to matters falling both within his scope as Chairman and as an Executive with the benefit of his long standing knowledge of, and experience in the SMX business.
2.6	A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively.	Complies	The Company's induction program provides incoming Directors with information that will enable them to carry out their duties in the best interests of the Company. New Directors are encouraged to spend time with the Management team and receive information packages and documentation pertinent to the role. This includes supporting ongoing education of Directors for the benefit of the Company. SMX is committed to procuring appropriate professional development opportunities for Directors so that they may develop and maintain the skill and knowledge needed to perform their roles effectively, whether this be by informal program or otherwise. Members of the Board are able to take independent professional advice at the expense of the Company.

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

3.1	A listed entity should articulate and disclose its values.		At present the Company has not published a statement of its values, however it will look to do so in the future.
3.2	A listed entity should: 1. have and disclose a code of conduct for its directors, senior executives and employees; and 2. ensure that the board or a committee of the board is informed of any material breaches of that code.	Complies	The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a Code of Conduct to be followed by all employees, contractors and officers. The Code of Conduct outlines the Company's policies on various matters including protection of confidential information, avoiding conflicts of interest, ethical conduct, business and personal conduct, privacy and financial integrity. A copy of the code is available on the Company's website https://www.securitymattersltd.com.
3.3	A listed entity should: (a) have and disclose a whistleblower policy; and (b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.	Complies	The Company has adopted a whistleblower policy. A copy of the policy is available on the Company's website https://www.securitymattersltd.com.
3.4	A listed entity should: (a) have and disclose an anti-bribery and corruption policy; and	Does not comply	The Company has not yet adopted an anti-bribery and corruption policy, however it will look to do so in the future.

	(b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.		

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

4.1	The board of a listed entity should: 1. have an audit committee which: a. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and b. is chaired by an independent director, who is not the chair of the board; and disclose: 2. the charter of the committee; 3. the relevant qualifications and experience of the members of the committee; and 4. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; **OR** 5. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and	Complies	The Company has an Audit and Risk Committee (ARC). The ARC currently comprises of two independent non-executive directors (Jovanka Naumoska (Chair) and Kathryn Davies) and two non-independent directors (Amir Bader and Haggai Alon). The Chair of the ARC is an independent non-executive director. The ARC Charter which sets out its roles and responsibilities is available on the Company's website. The Company, at the end of each reporting period, discloses in its annual report the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.

	safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.		
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Complies	The Chief Executive Officer and Chief Financial Officer state in writing to the Board that the Company's Financial Reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and that the statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.	Complies	The Company has internal processes to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

5.1	A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.	Complies	The Company has adopted a Disclosure and Communication Policy to ensure it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001. The Company's Communication and Disclosure Policy is available on the Company's website https://www.securitymattersltd.com.
5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	Complies	The Company has a process to ensure the board receives copies of all material market announcements promptly after they have been made.
5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	Complies	The Company releases all new and substantive investor or analyst presentation materials on the ASX Market Announcements Platform ahead of the presentation.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS

6.1	A listed entity should provide information about itself and its governance to investors via its website.	Complies	The Company uses its website (https://www.securitymattersltd.com), annual report, market disclosures and media announcements to communicate with its shareholders, as well as encourages participation at general meetings.
6.2	A listed entity should design and implement an investor relations program to facilitate	Complies	The Company is committed to: 1. ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way through the annual and half yearly reports, ASX releases, general meetings and the Company's website https://www.securitymattersltd.com;

	effective two-way communication with investors.		2. actively responding to shareholder's direct enquiries; 3. complying with continuous disclosure obligations contained in the applicable ASX Listing Rules and the Corporations Act in Australia; and 4. encouraging shareholder participation at general meetings.
6.3	A listed entity should disclose how it facilitates and encourages participation at meetings of security holders.	Complies	The Board encourages full participation of shareholders at the Company's Annual General Meetings and any General Meetings to ensure a high level of accountability and identification with the Company's strategy. The external auditor will also be invited to attend the annual general meeting of shareholders and will be available to answer any questions concerning the conduct, preparation and content of the Auditor's report.
6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.	Complies	The Company conducts voting at its general meetings by poll for all resolutions put to a general meeting.
6.5	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Complies	The Company's registrar, Boardroom, provides the option for shareholders to receive and send communications electronically.

<u>PRINCIPLE 7 – RECOGNISE AND MANAGE RISK</u>

7.1	The board of a listed entity should: have a committee or committees to oversee risk, each of which: 1. has at least three members, a majority of whom are independent directors; and 2. is chaired by an independent director, and disclose the charter of the committee; the members of the committee; and	Complies	The Company has an Audit and Risk Committee (ARC). The ARC currently comprises of two independent non-executive directors (Jovanka Naumoska (Chair) and Kathryn Davies) and two non-independent directors (Amir Bader and Haggai Alon). The Chair of the ARC is an independent non-executive director. The ARC Charter which sets out its roles and responsibilities is available on the Company's website. The Company, at the end of each reporting period, discloses in its annual report the number of times the Committee met throughout the period and the individual attendances of the members at those meetings. Ultimate responsibility for risk oversight and risk management rests with the Board. The identification and proper management of the Company's risks are an important priority of the Board. The Board has adopted a Risk

	3. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; **OR** 4. if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.		Management Policy appropriate for its business, which will ensure appropriate systems are implemented to identify material risks that may impact on the Company's business and delegate appropriate responsibilities to control any identified risk. The Policy will also ensure that any material changes to the Company's risk profile will be disclosed in accordance with the Company's Disclosure and Communication Policy. The Board will be responsible for overseeing and approving the Company's risk management strategy and policies, monitoring risk management, and establishing procedures, which seek to provide assurance that major risks to the business are identified, assessed and appropriately addressed, recognising however that no cost effective internal control system will preclude all errors and irregularities. The Board has also received written assurances from the Chief Executive Officer and Chief Financial Officer that to the best of their knowledge and belief: 1. The Company's financial statements present a true and fair view of the Company's financial condition and operational results, and comply with relevant accounting standards; and 2. The risk management and internal compliance and control systems are sound, appropriate and operate effectively, and implement the policies adopted by the Board.
7.2	The board or a committee of the board should: 1. review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the Board; and 2. disclose, in relation to each reporting period, whether such a review has taken place.	Complies	The Board reviews and oversees the operation of systems of risk management to ensure that the significant risks facing the Company are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with. During the period under review individual components of the risk management framework were reviewed by the Board, which recommended further development by management was required for reassessment during the forthcoming financial year.
7.3	A listed entity should disclose: 1. if it has an internal audit function, how the function is structured and what role it performs; **OR**	Complies in part	The Company does not have an internal audit function. The Board works closely with the Management Team to identify and manage operational, financial and compliance risks which could prevent the Company from achieving its objectives. The Board actively encourages the External Auditor to raise internal control issues, and oversees management's timely remediation thereof.

	2. if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving the effectiveness of its risk management and internal control processes.		
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Complies	The Company has identified key risks within the business. In the ordinary course of business, management monitor and manage these risks. Key operational and financial risks are presented to and reviewed by the Board.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

8.1	The board of a listed entity should: have a remuneration committee which: 1. has at least three members, a majority of whom are independent directors; and 2. is chaired by an independent director, and disclose: 3. the charter of the committee; 4. the members of the committee; and 5. as at the end of each reporting period, the number of times the committee met throughout the	Complies	The Company has a Remuneration and Nomination Committee (RNC). The RNC Comprises of two independent directors (Kathryn Davies (Chair) and Jovanka Naumoska) and one non-independent director (Amir Bader). The Chair of the RNC is currently an independent non-executive director. The RNC Charter is available on the website of the Company. At the end of each reporting period, the Company discloses in its annual report the number of times the committee met throughout the period and the individual attendances of the members at those meetings is to be disclosed.

	period and the individual attendances of the members at those meetings; **OR** if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.		
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Complies	The details of the remuneration paid to Directors and Officers is included in the Remuneration Report section of the Annual Report.
8.3	A listed entity which has an equity-based remuneration scheme should: have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and disclose that policy or a summary of it.	Complies	In accordance with SMX's share trading policy, participants in any equity based incentive scheme are prohibited from entering into any transaction that would have the effect of hedging or otherwise transferring the risk of any fluctuation in the value of any unvested entitlement in SMX's securities to any other person. A copy of the Policy for dealing in securities is available on the Company's website https://www.securitymattersltd.com.

Unless otherwise indicated, SMX's corporate governance practices were in place for the financial year ended 31 December 2021and to the date of signing the Directors' Report.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by the Company, refer to our website https://www.securitymattersltd.com.

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ADDITIONAL ASX INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below. The shareholder information set out below was applicable as at 11 March 2022.

Number of holders of Equity Securities

Ordinary shares
165,532,264 ordinary shares are held by 910 individual shareholders.
All ordinary shares carry one vote per share and the right to dividend.

Options to shares
54,006,249 Options to shares are held by 187 individual Option-holders.
Option holders do not have the right to vote.

Distribution schedule

Holdings Ranges	Fully Paid Ordinary Shares	Unlisted Options over Ordinary Shares
1-1,000	33	1
1,001-5,000	300	1
5,001-10,000	164	7
10,001-100,000	295	100
100,001-9,999,999,999	118	78
Totals	**910**	**187**

Twenty largest shareholders

Fully paid ordinary shares & Fully paid ordinary shares voluntarily escrowed and ASX escrowed

HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	21,120,625	12.759%
IBI TRUST MANAGEMENT <ENERGY KETURA COOP A/C>	17,804,623	10.756%
IBI TRUST MANAGEMENT <DEGANIA A BUSINESS A/C>	10,374,617	6.267%
CITICORP NOMINEES PTY LIMITED	9,552,438	5.771%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,090,472	4.283%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	5,906,261	3.568%
IBI TRUST MANAGEMENT <BENGUY ESCROW CO LTD A/C>	5,135,949	3.103%
IBI TRUST MANAGEMENT <MENACHEM ELIYAHU HARAM A/C>	3,766,362	2.275%
IBI TRUST MANAGEMENT <PINI MEIDAN A/C>	3,766,362	2.275%
IBI TRUST MANAGEMENT <AARON LEV A/C>	3,423,966	2.068%
CAPE BOUVARD EQUITIES PTY LTD	3,400,000	2.054%
JAMPLAT PTY LTD	3,204,188	1.936%
D0AVFT PTY LTD <DAVENPORT FAMILY A/C>	2,972,270	1.796%
BNP PARIBAS NOMS PTY LTD <DRP>	2,691,344	1.626%
IBI TRUST MANAGEMENT <KIBBUTZ KEFAR GLIKSON A/C>	2,655,530	1.604%
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	2,618,098	1.582%
INVIA CUSTODIAN PTY LIMITED <HAROLD CHARLES MITCHELL A/C>	2,609,805	1.577%
IBI TRUST MANAGEMENT <KIBBUTZ MAGEN ACS A/C>	2,124,815	1.284%
IBI TRUST MANAGEMENT <KIBBUTZ YIZRAEL HOLDINGS A/C>	2,124,815	1.284%
RENTUK SHORE PTY LTD	2,066,316	1.248%
Total Securities of Top 20 Holdings		69.116%
Total of Securities	114,408,856	

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ADDITIONAL ASX INFORMATION

Substantial Holders

Substantial Shareholder	Shares Held	Holding
Star Resources Pte Ltd	21,007,046	13.76%
Kibbutz Ketura ACS Ltd	20,275,081	18.44%
Degania A Business Agricultural Cooperative Society Ltd	10,544,617	8.18%
Benguy Escrow Company Ltd	6,564,328	5.09%

Unquoted Equity Securities
The following holders hold 20% or more of unquoted equity securities

Unquoted equity securities

The following holders hold 20% or more of unquoted equity securities

Options Expiring 5 Years ASX Escrowed 24 Months from IPO	
BENGUY ESCROW COMPANY LTD	5,000,000
KIBBUTZ KETURA ACS	5,000,000
MR DAVID ROSENBLATT	2,500,000
Options Expiring 5 Years from IPO Date Voluntary Escrow 24 Months	
LEON KEMPLER	755,035
MR JOHN POYNTON	755,035
Options Expiring 1 Sept 2023 Voluntary Escrow 2 Years from IPO	
IBI TRUST MANAGEMENT <DR YAIR GROF A/C>	1,545,587

On Market Buy Back
There is currently no on-market buy-back.

Voting rights
The voting rights attached to ordinary shares are set out below:
On a show of hands every member present at a meeting in person or by attorney, proxy or by representative shall have one vote and upon a poll each share shall have one vote.

Consistency with business objectives - ASX Listing Rule 4.10.19
In accordance with Listing Rule 4.10.19, the Group states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objectives are to develop the business of Security Matters Limited in line with its business model.
The consolidated entity believes it has used its cash in a consistent manner to which was disclosed under the Prospectus dated 7 August 2018.