

29 April 2022

Q1/2022 – Quarterly Activity Report

- SMX appoints ClearThink Capital LLC to undertake a strategic review to assess options available to maximise shareholder value in the Company. The strategic review will identify and assess opportunities to accelerate growth in the Company’s technological application and offerings. The proposed strategic evaluation process will include a review of all feasible funding options combined with an assessment of potential markets that are supportive of new technologies; providing SMX the opportunity to grow and expand.
- As part of its strategic review, Clearthink Capital has introduced SMX to a number of Special Purpose Acquisition Companies (SPACs). SMX has entertained discussions with a small number of SPACs with a view to attaining a listing on the NASDAQ. At this stage no discussions have progressed to material and binding terms. If and when a material and binding agreement is reached with a SPAC, Security Matters will provide the market with immediate disclosure.
- The total amount of invoices issued in Q1 2022 reached to US\$413K, an increase of 53% compared to US\$270K in Q4 2021 and an increase of 79% compared to US\$231K in Q1 2021.
- SMX successfully completed an industrial scale readiness trial in a facility marking recycled plastics, which will help SMX customers to identify evidence of 30% recycled plastic and the number of loop counts the plastic has gone through, making it easier and potentially cheaper [for manufacturers/recyclers] to comply with plastic packaging legislation.
- SMX expands its North American presence by joining NextCycle Michigan, an initiative aimed at transforming the recycling practices for one of the world’s biggest automotive industrial regions.
- SMX targeted the superfood industry after successfully developing the first product ensuring the provenance of oysters, providing an opportunity to add value in this large international market within the superfood industry.
- SMX appoints the previous Director General of the Israel National Cyber Directorate, Mr Yigal Unna, to the Company’s Advisory Board

Security Matters Limited (ASX: SMX) (Security Matters or the Company), a company focused on digitising physical objects on the blockchain to enable a circular and closed loop economy, is delighted to provide an overview of its operational highlights for the three months ended 31 March 2022 (“Quarter”, “Reporting Period”) to accompany its Appendix 4C.

Corporate & Financial highlights

Financial

The total amount of invoices issued in Q1 2022 reached to US\$413K.

The remuneration paid to the Directors during the quarter was US\$8K.

Operational and Commercial highlights

SMX Reviews Strategic Alternatives

Towards the end of the quarter, the SMX Board advised that ClearThink Capital LLC has been appointed to undertake a strategic review to assess options available to maximise shareholder value in the Company. The review is aimed at identifying and assessing opportunities to accelerate growth in SMX’s technological applications and offerings. The evaluation will include a review of all feasible funding options as well as an assessment of potential markets that are supportive of new blockchain

technologies which will provide SMX opportunities to grow during its early-stage revenue period. The strategic review by ClearThink Capital is progressing and SMX will continue to keep shareholders informed of any outcomes in accordance with the Company's continuous disclosure obligations.

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

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

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

Following these trials, it was found that:

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

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

This system follows SMX's ongoing developments in the Plastics department, which includes joining NextCycle Michigan, the recent release of SMX Generation 2.0 online unit and being awarded the Frost & Sullivan 2021 Global Waste Management & Recycling Digitalization Technology Innovation Leadership Award and the successful implementation of the Company's technology into BASF's ReciChain project in North America in 2020.

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

SMX joins NextCycle Michigan

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

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

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

SMX targets the superfood industry

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

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

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

SMX Advisory Board Appointment

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

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

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

Haggai Alon, Founder and CEO, commented:

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

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

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

--Ends--

By order of the Board.

For further information, please contact:

Media Enquiries

Melissa Hamilton

Media and Capital Partners

P: 04 1775 0274

E: Melissa.hamilton@mcpartners.com.au

About Security Matters Limited

Security Matters has commenced the commercialisation of its unique, patented technology that uses a hidden chemical-based 'barcode' to permanently and irrevocably 'mark' any object, be it solid, liquid or gas. The



barcode is read using the company's unique 'reader' to access the corresponding stored data, recorded and protected using blockchain technology.

Follow us through our social channel  @secmattersltd

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Security Matters Limited

ABN

78 626 192 998

Quarter ended ("current quarter")

31 March, 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	156	156
1.2 Payments for		
(a) research and development	-248	-248
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-87	-87
(d) leased assets	-11	-11
(e) staff costs	-514	-514
(f) administration and corporate costs	-463	-463
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	-4	-4
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (VAT & GST returns)	222	222
1.9 Net cash from / (used in) operating activities	-947	-947
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-141	-141
(d) investments	-	-
(e) intellectual property	-497	-497
(f) other non-current assets	-319	-319

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-87	-87
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-1,044	-1,044

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-129	-129
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-133	-133
3.10	Net cash from / (used in) financing activities	-262	-262

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,170	4,170
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-947	-947
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-1,044	-1,044

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-262	-262
4.5	Effect of movement in exchange rates on cash held	33	33
4.6	Cash and cash equivalents at end of period	1,950	1,950

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US'000	Previous quarter \$US'000
5.1	Bank balances	1,950	4,171
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,950	4,171

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	17
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

Payments to directors -US\$ 8K.

Payments for administrative services provided by Kibbutz Ketura (substantial shareholder) at cost price US\$ 9K.

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	177	177
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	177	177
7.5 Unused financing facilities available at quarter end		0
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
Shareholder loan from Ketura and Degania (substantial shareholders of SMX) for ILS 560,000 (USD 177K at quarter end).		
Terms of loan:		
1) Annual interest rate of 4%.		
2) Loan repayment in quarterly instalments of ILS 250,000 (~US\$ 79K)		
The loan is described in more detail in the prospectus in section 10.16 and in a pre-quotation disclosure dated 11 October 2018.		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	-947
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,950
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	1,950
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.06
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/a	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/a	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/a

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 April 2022
.....

Authorised by: By the Board
.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.