

Security Matters Limited
 Appendix 4D
 Interim report for the half year ended 30 June 2020

1. Company details

Name of entity: Security Matters Limited

ABN: 78 626 192 998

Reporting period: Half year ended 30 June 2020

Previous reporting period: Half year ended 30 June 2019

2. Results for announcement to the market

			US\$
Revenues from ordinary activities	down	36% to	4,374
Loss from ordinary activities after tax attributable to the owners of Security Matters Limited	up	54% to	3,203,853
Loss for the half year attributable to the owners of Security Matters Limited	up	54% to	3,203,853

Dividend

No dividends have been declared or are payable for the period ended 30 June 2020.

Review of operations

The loss after tax for the half year period of the consolidated entity increased to \$3,203,853 compared to a loss of \$2,082,529 in H1 2019.

The increase in the loss during this period was due to the increase in several expenditures. General and Administrative costs increased as a result of the company building a strong base in Australia. In addition, Share Based Compensation also increased, as well as Research and Development expenses.

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

3. Net tangible assets

	30 June 2020	31 December 2019
	US \$	US \$
Net tangible asset per security	0.026	0.011

4. Control gained or lost over entities

Not applicable.

5. Details of associates and joint venture entities

Name of entity (or group of entities)	Yahaloma BC1219747	True Gold Consortium Pty Ltd.	SMX Beverages Pty Ltd
Date control gained	15/8/2019	4/6/2020	10/2/2020
Contribution of such entities to the reporting entity's loss from ordinary activities during the period (where material)	N/A	N/A	N/A

6. Audit qualification or review

The interim financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

7. Attachments

The Interim Report for the half year ended 30 June 2020 of Security Matters Limited is attached.



Director: Haggai Alon
Date: 28 August 2020

SECURITY MATTERS LIMITED, ABN 78 626 192 998
INTERIM REPORT 30 JUNE 2020



SECURITY MATTERS LIMITED
INTERIM REPORT FOR THE HALF YEAR ENDED 30 JUNE 2020

SECURITY MATTERS LIMITED

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The amounts are stated in U.S dollars

INTERIM REPORT 30 JUNE 2020

DIRECTORS REPORT

Directors' Report

Security Matters Limited ACN 626 192 998

The Directors present their report, together with the financial statements, of the consolidated entity (referred to as the 'consolidated entity' or the 'Group') consisting of Security Matters Limited (referred to as the 'Company' or 'SMX') and the entities it controlled during the half year ended 30 June 2020.

Significant company milestones

During the June half year, SMX delivered strong progress across all operations having cemented and expanded its relationship with high calibre partners which are propelling the Company towards commercialisation. Highlights for the half year:

- Joint Development agreement signed with BASF to develop solutions for plastic traceability and circularity.
- SMX becomes a member of the World Business Council for Sustainable Development fast tracking extended adoption of its technology amongst corporations focusing on sustainability.
- SMX signed an MoU with The Perth Mint to create the world's first mine-to-product transparency solution for gold.
- SMX establish a joint venture; SMX-Beverages, focused on the global alcohol counterfeit market.

COVID-19 creates increasing demand for supply chain and accountability assurance technology creating a number of unique opportunities for SMX. On the other hand, global uncertainty and a global economic downturn of the economy may impact adoption rate of the technology.

Directors

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

Name	Role	Appointed	Resigned
Mr. Everardus (Ed) Hofland	Executive Chairman	24 July 2018	
Ms. Jovanka Naumoska	Non-Executive Director	24 July 2018	
Dr. Gregory Clark	Non-Executive Director	24 July 2018	10 June 2020
Mr. David Rosenblatt	Executive Director	24 July 2018	29 May 2020
Mr. Amir Bader	Non-Executive Director	24 July 2018	
Ms. Kathryn Davies	Non-Executive Director	10 June 2020	
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 B2B, "white-label" solution that serves market leaders' needs for authentication, supply chain integrity and quality assurance.

INTERIM REPORT 30 JUNE 2020

DIRECTORS REPORT

Main sectors of activity for 2020 are: circular economy, plastics, electronics, precious stones, minerals and agriculture.

Significant changes in state of affairs

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

Dividend paid or recommended

No dividends were paid or declared during the financial period.

Review of operations

The loss for the period amounted to \$3,203,853 compared to a loss of \$2,082,529 in the half year ended 30 June 2019. During the half year the Company recorded Revenues of \$4,374 as well as Receipts and Receivables from Proof of Concept projects (POC's) and paid pilots of \$157,918. The Company treated the funds received from POC's and paid pilots as a reduction of R&D costs and not as revenues.

The increase in expenses during the current period was due to the growth in activity. Increase in share based compensation is mainly due to issuance of Options to strategic business development advisors as well as Options issued as part of the Capital raise.

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

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.

Events after the reporting period

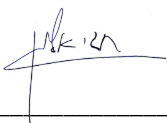
Since the reporting date the following significant events have occurred:

- 22/7/2020 – SMX's technology is to be utilised to enhance research recycling approaches for brominated flame retardant materials
- 29/7/2020 – Formation of trueGold consortium together with the Perth Mint
- 5/8/2020 – SMX's technology to be used in BASF's Recichain pilot to improve circular economy and traceability of recycled plastics in Canada

Auditor's independence declaration

The Auditor's independence declaration for the period ended 30 June 2020 has been received and can be found on page 5 of the financial report.

The Directors have been given the declarations required by s307C of the Corporations Act 2001. This Directors' report is signed in accordance with a resolution of the Board of Directors pursuant to section s303(3) of the Corporations Act 2001.



Director: Haggai Alon

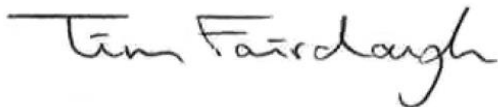
Date: 28 August 2020

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

As lead auditor for the review of Security Matters Limited for the half year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Tim Fairclough
Director

BDO Audit Pty Ltd

Melbourne

28 August 2020

INTERIM REPORT 30 JUNE 2020

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE PERIOD ENDED 30 JUNE 2020**

Consolidated		30 June 2020	30 June 2019
	<u>Note</u>	US\$	US\$
Revenue		4,374	6,797
Cost of sales		(4,936)	(6,546)
Gross (loss) profit		(562)	251
Wages and salaries		(734,179)	(873,513)
Research and development expenses, net		(205,361)	(87,368)
Share based compensation		(1,128,885)	(351,142)
Selling and marketing expenses		(78,646)	(78,375)
Depreciation and amortisation		(91,822)	(66,238)
General and administrative expenses		(612,731)	(338,697)
Legal and consultants expenses		(393,949)	(337,881)
Finance expenses		(3,382)	(10,753)
Finance income		45,664	61,187
Loss before income tax		(3,203,853)	(2,082,529)
Income tax		--	--
Loss after income tax		(3,203,853)	(2,082,529)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation reserve		120,540	(74,743)
Total comprehensive loss		(3,083,313)	(2,157,272)
Loss per share attributable to owners of the Company			
	[4]	(0.03)	(0.02)
Diluted loss per share attributable to owners of the Company			
	[4]	(0.03)	(0.02)

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

INTERIM REPORT 30 JUNE 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

Consolidated	Note	30 June 2020	31 December 2019
		US\$	US\$
<u>Current Assets</u>			
Cash and cash equivalents		3,370,216	1,707,768
Other receivables		317,310	282,570
Total Current Assets		3,687,526	1,990,338
<u>Non-Current Assets</u>			
Property and equipment		919,375	470,853
Intangible assets		1,517,694	1,405,066
Investment in joint venture	[8]	248,272	213,957
Total non-current assets		2,685,341	2,089,876
Total assets		6,372,867	4,080,214
<u>Current Liabilities</u>			
Trade payables		259,984	192,313
Lease liability short term		47,259	37,664
Other payables		295,427	369,251
Borrowings	[5]	259,665	405,093
Total current liabilities		862,335	1,004,321
<u>Non-Current Liabilities</u>			
Other Liabilities		119,704	110,535
Lease liability long term		475,003	44,898
Total non-current liabilities		594,707	155,433
Total liabilities		1,457,042	1,159,754
Net Assets		4,915,825	2,920,460
<u>Equity</u>			
Issued capital	[6]	18,973,251	14,987,577
Share based payment reserve	[7]	3,463,149	2,370,145
Foreign currency translation reserve		6,797	(113,743)
Accumulated losses		(17,527,372)	(14,323,519)
Total Equity		4,915,825	2,920,460

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

INTERIM REPORT 30 JUNE 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2020

Consolidated	<u>Issued Capital</u>	<u>Share based payment reserve</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2020	14,987,577	2,370,145	(113,743)	(14,323,519)	2,920,460
Loss after income tax for the year	--	--	--	(3,203,853)	(3,203,853)
Other comprehensive income for the year, net of tax	--	--	120,540	--	120,540
Total comprehensive income (loss) for the year	--	--	120,540	(3,203,853)	(3,083,313)
Transactions with owners in their capacity as owners					
Issuance of shares	4,080,942	--	--	--	4,080,942
Capital raising costs	(131,149)	--	--	--	(131,149)
Share based compensation	35,881	1,093,004	--	--	1,128,885
Total transactions with owners in their capacity as owners	3,985,674	1,093,004	--	--	5,078,678
Balance at 30 June 2020	18,973,251	3,463,149	6,797	(17,527,372)	4,915,825

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

INTERIM REPORT 30 JUNE 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2020

Consolidated	<u>Issued Capital</u>	<u>Share based payment reserve</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2019	10,892,560	1,780,411	(31,925)	(9,792,063)	2,848,983
Loss after income tax for the year	--	--	--	(2,082,529)	(2,082,529)
Other comprehensive income for the year, net of tax	--	--	(74,743)	--	(74,743)
Total comprehensive loss for the year	--	--	(74,743)	(2,082,529)	(2,157,272)
Transactions with owners in their capacity as owners					
Issuance of shares	4,404,885	--	--	--	4,404,885
Capital raising costs	(335,927)	--	--	--	(335,927)
Share based compensation	--	351,142	--	--	351,142
Total transactions with owners in their capacity as owners	4,068,958	351,142	--	--	4,420,100
Balance at 30 June 2019	14,961,518	2,131,553	(106,668)	(11,874,592)	5,111,811

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

CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE PERIOD ENDED 30 JUNE 2020

Consolidated	30 June 2020 US\$	30 June 2019 US\$
<u>Cash flows from operating activities:</u>		
Loss before tax for the half year	(3,203,853)	(2,082,529)
Share based compensation	1,128,885	351,142
Depreciation and amortization	91,822	66,238
Increase in other receivables	(34,742)	(83,009)
Increase in Trade receivables	--	(3,956)
Decrease/(increase) in trade payables	67,670	(24,976)
Increase/(decrease) in other payables	(108,159)	95,048
Increase in lease liability	1,005	105,313
Increase/(decrease) in other liabilities	9,188	14,482
Cash used in operating activities	(2,048,184)	(1,562,247)
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(88,787)	(234,105)
Capitalisation of R&D expenses	(125,489)	(271,132)
Cash used in investing activities	(214,276)	(505,237)
<u>Cash flows from financing activities:</u>		
Payments of borrowings to related parties	(144,259)	(70,107)
Proceeds from issuance of shares, net	3,949,792	4,068,959
Cash provided from financing activities	3,805,533	3,998,852
Increase in cash and cash equivalents	1,543,073	1,931,368
Cash and cash equivalents at beginning of period	1,707,768	2,350,084
Exchange rate differences (including translation)	119,375	(52,275)
Cash and cash equivalents at end of period	3,370,216	4,229,177

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

The financial statements cover Security Matters Limited as a Group consisting of Security Matters Limited and the entities it controlled at the end of, or during, the financial period. The financial statements are presented in US Dollars, which is Security Matters Limited's presentation currency.

The functional currency of Security Matters Limited (Australia) is Australian Dollars. The functional currency of Security Matters Ltd (Israel) is US Dollars.

Security Matters Limited is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The Financial Statements were authorised for issue on 28 August 2020 by the Directors of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

These general purpose financial statements for the interim half-year reporting period ended 30 June 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected financial assets and financial liabilities.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the financial year ended 31 December 2019.

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

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 period ended 30 June 2020 of \$3,203,853 (30 June 2019: loss \$2,082,529). Net cash outflows from operating activities for the current period totalled \$2,048,184 (30 June 2019: \$1,562,247). This is expected for a young technology company and is part of its ordinary life-cycle.

As of 30 June 2020, the Group had cash on hand of \$3,370,216. 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, and the directors have confidence in the company's strong track record of raising capital.

The forecast was prepared while taking into consideration the uncertainty created by the full impact of COVID-19 on the economy. COVID-19 creates increasing demand for supply chain and accountability assurance technology creating a number of unique opportunities for SMX. On the other hand, global uncertainty and a global economic downturn of the economy may impact adoption rate of the technology.

INTERIM REPORT 30 JUNE 2020

DIRECTORS' DECLARATION

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 CEO to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues.

Management will also consider other factors in determining operating segments such as the existence of line managers and the level of segment information presented to the Chairman of the Board of Directors. During the 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.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

Amortisation of capitalized development costs and determination of useful life

Intangible assets are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. As at June 30 2020 part of the Marking and Reading Technology is amortised, and it is expected that other assets will begin amortization during H1 2021. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of profit or loss in specific periods.

Share based payments

The Company has a share based remuneration scheme for employees. The fair value of share options is estimated by using the Black & Scholes model, which was derived to model the value of the firm's equity over time. The simulation model was designed to take into account the unique terms and conditions of the performance shares and share options, as well as the capital structure of the firm and the volatility of its assets, on the date of grant based on certain assumptions. Those conditions are described in the share based compensation note and include, among others, the dividend growth rate, expected share price volatility and expected life of the options. The fair value of the equity settled options granted is charged to statement of profit or loss over the vesting period of each tranche and the credit is taken to equity, based on the consolidated entity's estimate of shares that will eventually vest.

NOTE 4 - EARNINGS PER SHARE

	30 June 2020 US\$	30 June 2019 US\$
<i>Loss per share for profit</i>		
Loss after income tax attributable to the owners of Security Matters Limited	(3,203,853)	(2,082,529)
Basic & diluted loss per share	(0.03)	(0.02)
<i>Weighted average number of ordinary shares</i>		
Weighted average number of ordinary shares used in calculating basic earnings per share	121,140,436	103,186,620
Weighted average number of ordinary shares used in calculating diluted earnings per share	121,140,436	103,186,620

41,833,080 Options were not included in the number of weighted average ordinary shares used to calculate diluted earnings per share because their impact would be anti-dilutive

INTERIM REPORT 30 JUNE 2020

DIRECTORS' DECLARATION

NOTE 5 - BORROWINGS FROM RELATED PARTIES:

In 2015, the Group signed an agreement to receive a loan of NIS 2 Million (US\$ 512,558 at 2015) from its major shareholders on back-to-back terms from a third party (the Kamea Fund). The loan bears an interest at an annual rate of 4% and was expected to be repaid in eight quarterly equal installments commencing December 31, 2016.

In December 2017, the Group reached an agreement with its shareholders according to which the loan will be repaid in eight equal quarterly instalments commencing November 1, 2018.

	30 June 2020	31 December 2019
	US\$	US\$
Balance at 1 January	405,093	440,235
Payment of borrowings	(144,259)	(72,338)
Exchange rate differences	(1,169)	37,196
Balance at end of period	259,665	405,093

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\$ 865K) 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\$ 890K) (**Minimum Threshold**).

'**Cumulative Compensation**' means the total aggregate compensation provided under Liquidity Events.

Once a Lender has received the Minimum Threshold, the Company is required to commence paying the Bonus Payments from any further Cumulative Compensation. The Company must pay, in fulfilment of the Bonus Payment, 50% of any further Cumulative Compensation over and above the Minimum Threshold.

There is no time limit to pay the Bonus Payments. Once the Company has paid each Bonus Payment in its entirety (i.e. the cap of ILS 3,000,000 has been paid to each Lender), then the Company has fulfilled its obligations. Any further distributions thereafter will be distributed pro rata amongst all shareholders of the Company.

These Bonus Payments are governed under the laws of Israel. The Bonus Payments were examined by an external valuator and based on management's projections and insights it has estimated that the value of the Lender's Bonus is estimated at zero as of 31 December 2019. As of 30 June 2020, there is no change in management projections and management has estimated the value of the Lender's Bonus at zero.

DIRECTORS' DECLARATION

NOTE 6 – EQUITY- ISSUED CAPITAL:

During the half year the Company issued a total of 18,879,647 shares in a placement of shares at a price per share of A\$0.34 (US\$0.20-0.22 per share). The Company additionally issued directors of the Company 207,246 shares at a price per share of US\$0.17 (A\$0.26).

Movement in issued capital within the period.

	<u>30 June 2020</u> Shares	<u>31 December 2019</u> Shares	<u>30 June 2020</u> US\$	<u>31 December 2019</u> US\$
Ordinary shares- fully paid	129,078,240	109,991,347	18,973,251	14,987,577

	<u>Date</u>	<u>Number of shares</u>	<u>Unit Price</u> US\$	<u>Share Capital</u> US\$
Balance as at 1 January 2020	01/01/2020	109,991,347		14,987,577
Placement of shares	12/03/2020	14,705,883	0.22 ⁱ	3,228,500
Placement of shares	25/03/2020	4,173,764	0.20 ⁱ	852,442
Placement of shares	29/05/2020	207,246	0.17	35,881
Capital raising costs		--	--	(131,149)
Balance as at 30 June 2020	30/06/2020	129,078,240		18,973,251

ⁱ Both placements were at unit price of A\$0.34, the difference in USD price is due to exchange rate differences.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

NOTE 7 – RESERVES

Consolidated	<u>30 June 2020</u> US\$	<u>31 December 2019</u> US\$
Share based payment reserve	3,463,149	2,370,146
Foreign currency translation reserve	6,797	(113,743)
	3,469,946	2,256,403

Share based compensation

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

	<u>Number of Options</u>	<u>US\$</u>
Opening balance at 1 January 2020	35,608,464	2,370,145
Issue of Options during the half-year	13,272,721	1,183,609
Amortisation of previously issued ESOP Options	--	72,102
Forfeit of Options	7,048,105	(162,707)
Closing balance at 30 June 2020	41,833,080	3,463,149

INTERIM REPORT 30 JUNE 2020

DIRECTORS' DECLARATION

NOTE 8 – CONTROLLED ENTITIES & 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 30 June 2020	Percentage Owned 31 December 2019
Security Matters Ltd	Israel	100%	100%
Yahaloma Technologies Inc.	Canada	50%	50%
True Gold Consortium Pty Ltd	Australia	100%	N/A
SMX Beverages Pty Ltd	Australia	50%	N/A

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

Yahaloma Technologies Inc.

Yahaloma Technologies Inc. ("Yahaloma") is a private Canadian company equally held by Security Matters Limited and Trifecta Industries Inc., founded on August 15, 2019. Yahaloma has the exclusive rights and responsibility to commercialize the Security Matters group intellectual property in the area of diamonds or precious stone. The joint arrangement is a joint venture and the Company's interests in Yahaloma is accounted for using the equity method of accounting.

During the period ending 30 June 2020, Yahaloma has continued the development the SMX technology for the diamonds and precious stones sector. As at 30 June 2020, the carrying amount of the JV in Security Matters' accounts is \$213,957.

SMX Beverages Pty Ltd

On February 10, 2020 Security Matters Limited ("SMX") 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 will establish a new private entity (SMX Beverages Pty or "SMX-B"), which will be equally held by the above two mentioned groups. The Company will have 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 30 June 2020, the carrying amount of the JV in Security Matters' accounts is \$34,315 (A\$50,000).

True Gold Consortium Pty Ltd

True Gold Consortium Pty Ltd was dormant as at 30 June 2020. Formation of trueGold consortium together with the Perth Mint took place after period end.

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

NOTE 9 – SUBSEQUENT EVENTS

Since the reporting date the following significant events have occurred:

- 22/7/2020 – SMX's technology is to be utilised to enhance research recycling approaches for brominated flame retardant materials
- 29/7/2020 – Formation of trueGold consortium together with the Perth Mint
- 5/8/2020 – SMX's technology to be used in BASF's Recichain pilot to improve circular economy and traceability of recycled plastics in Canada

INTERIM REPORT 30 JUNE 2020

DIRECTORS' DECLARATION

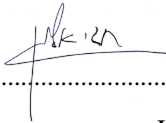
DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Security Matters Limited, the Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 6 to 15, are in accordance with the *Corporations Act 2001* and:
 - a. The Australian Accounting Standard AASB 134 'Interim Financial Reporting', Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2020 and of the performance for the period ended on that date of the company;
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of Directors made pursuant to section 305(5)(a) of the *Corporations Act 2001*

Director



Haggai Alon

Dated this28..... day of ...August..... 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Security Matters Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Security Matters Limited and its subsidiaries which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd

A handwritten signature in black ink. The signature consists of the letters 'BDO' in a large, bold, sans-serif font, followed by the name 'Tim Fairclough' in a cursive script.

Tim Fairclough
Director

Melbourne, 28 August 2020