

For personal use only

SECURITY MATTERS LIMITED

ACN 626 192 998

Replacement Prospectus

LEAD MANAGER



AUSTRALIAN LEGAL ADVISER



ISRAELI LEGAL ADVISER



Important Notice

Offer

The Offer contained in this replacement prospectus (**Prospectus**) is an invitation to acquire fully paid ordinary shares in Security Matters Ltd (ACN 626 192 998) (**Security Matters or Company**) (**Shares**). This Prospectus is issued by the Company.

Lodgement and listing

This Prospectus is dated 7 August 2018 and it replaces the Original Prospectus dated 24 July 2018 relating to the Shares of the Company. A copy of this Prospectus was lodged with the Australian Securities and Investments Commission (**ASIC**) on 7 August 2018. None of ASIC, the Australian Securities Exchange (**ASX**) or their respective officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The Company has applied to ASX for listing and quotation of the Shares on ASX.

This Prospectus expires on the date which is 13 months after the date of this Prospectus. No securities will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Overview of the material changes from the Original Prospectus

This Prospectus has been issued to provide disclosure in relation to the following matters, which are the material changes from the Original Prospectus:

- further disclosure about what type of escrow is applicable and the percentage of Shares which will be escrowed following Completion of the Offer;
- further disclosure that the Company obtained the written consent of third parties prior to disclosing them in this Prospectus;
- further disclosure regarding the status of the Company's commercial arrangements with certain third parties;
- further disclosures regarding the key risks to the Company, including key risks in relation to the Isorad Licence Agreement, the Company's Patent Applications and the Company's commercial arrangements with third parties; and
- addressing the structure and content of certain tables and sections of the prospectus to ensure this Prospectus is clear, concise and effective.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor. It is important that you read this Prospectus carefully and in full before deciding whether to invest in the Company. You should carefully consider this Prospectus in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.

Some of the risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company, the repayment of capital by the Company or the payment of a return on the Shares.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company or its Directors.

Note for Israeli Investors

This document does not constitute a prospectus under the Israeli Securities Law, 5728-1968 and the regulations promulgated thereunder, and has not been filed with or approved by the Israel Securities Authority. In the State of Israel, this document is being distributed only to, and is directed only at, and any offer of securities is directed only at, (i) a limited number of persons in accordance with section 15A of the Securities Law and (ii) investors listed in the first addendum to the Securities Law, consisting primarily of joint investment in trust funds, provident funds, insurance companies, banks, portfolio managers, investment advisors, members of the Tel Aviv Stock Exchange, underwriters, venture capital funds, entities with equity in excess of ILS 50 million and "qualified individuals", each as defined in such addendum (as it may be amended from time to time), collectively referred to as qualified investors (in each case purchasing for their own account or, where permitted under the addendum to the Securities Law, for the accounts of their customers who are investors listed in the addendum to the Securities Law). Qualified investors under the Securities Law will be required to submit written confirmation that they fall within the scope of the definition of the Securities Law and are aware of the meaning of same and agree to it. If any recipient in Israel of a copy of this Prospectus is not qualified as such, such recipient should promptly return this Prospectus to the Company. In any case, no person who is not a qualified investor under the Securities Law who provided the Company with a signed confirmation of such qualification may rely on any statement in this Prospectus or any other statement made (or not made) by the Company or have any right of claim against the Company by virtue of obtaining Shares under the Offer without signing such qualification confirmation.

Additionally, neither the Company nor any of its officers is a licensed investment marketer under the Law for the Regulation of Provisions of Investment Advice, Marketing Investments and Portfolio Management 1995. Accordingly, the securities described herein will only be offered and sold in Israel to parties that qualify as "eligible customers" for the purposes of Section 3(a)(11) of such law.

No Cooling-Off Rights

Cooling-off rights do not apply to an investment in Shares acquired under the Prospectus. This means that, in most circumstances, you cannot withdraw your application to acquire Shares under this Prospectus once it has been accepted.

Exposure period

In accordance with Chapter 6D of the Corporations Act, the Original Prospectus was subject to an exposure period of seven days from the date of lodgement of the Original Prospectus with ASIC. The exposure period was extended by ASIC for a further period of seven days, being to 7 August 2018. If this Prospectus is found to be deficient, Applications received during the Exposure Period will be dealt with in accordance with section 724 of the Corporation Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period and receive no preference.

Obtaining a copy of this Prospectus

The Offer constituted by this Prospectus in electronic form at <https://www.securitymattersltd.com/> are available only to persons within Australia or certain persons in jurisdictions authorised by the Company.

Subject to the section "Note for Israeli Investors" above, it is not available to persons in other jurisdictions (including the United States of America and Israel). Persons having received a copy of this Prospectus in its electronic form may, before the Offer close, obtain a paper copy of this Prospectus (free of charge) by telephoning the Share Registry on 1300 737 760 within Australia. If you are eligible to participate in the Offer and are calling from outside Australia, you should call + 61 9290 9600.

Applications for Shares may only be made on an application form attached to or accompanying this Prospectus, or via the relevant electronic application form attached to the electronic version of this Prospectus (**Application Form**) available at <https://www.securitymattersltd.com/>. The Corporations Act prohibits any person from passing the Application Form onto another person unless it is attached to a hard copy of the Prospectus or the complete and unaltered electronic version of the Prospectus. Refer to Section 7 for further information on the details of the Offer.

Statements of past performance

This Prospectus includes information regarding the past performance of the Company, Security Matters Israel or the assets held by the Company or Security Matters Israel. Investors should be aware that past performance is not indicative of future performance.

Financial performance

Section 4 sets out in detail the financial information referred to in this Prospectus. The basis of preparation of the financial information is set out in Section 4. All references to FY15, FY16 and FY17 appearing in this Prospectus are to the financial years ended or ending 31 December 2015, 31 December 2016 and 31 December 2017 respectively, unless otherwise indicated.

The Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by the IFRS. Compliance with these standards ensures that the Historical Financial Information complies with the recognition and reporting principles of the International Financial Reporting Standards.

Important Notice

All financial amounts contained in this Prospectus are expressed in Australian currency, unless otherwise stated.

Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

Conditional Offer

The Offer is conditional on:

- ASX conditional approval to admit the Company's Shares to Official Quotation; and
- the Company receiving valid applications for at least \$5,000,000 worth of Shares under the Offer.

Forward looking statements

This Prospectus contains forward looking statements which are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may", and other similar words that involve risks and uncertainties. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company.

Any forward looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. Forward looking statements should be read in conjunction with, and are qualified by reference to, the risk factors as set out in Section 5.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward looking statements. The Company has no intention of updating or revising forward looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

Industry and market data

Industry and market data used throughout this Prospectus is, in most cases, obtained from surveys and studies conducted by third parties and industry or general publications. The Company considers that this information provides an independent insight into this market and has no reason to believe that this information is unreliable.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company or its Subsidiaries. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Company website

Any references to documents included on the Company's website at <https://www.securitymattersltd.com/> are for convenience only, and none of the documents or other information available on the Company's website is incorporated herein by reference.

Defined terms and time

Defined terms and abbreviations used in this Prospectus have the meanings given in the glossary in Section 11 or as defined in the body of the Prospectus.

Unless otherwise stated or implied, references to times in this Prospectus are to Melbourne, Australia time.

Disclaimer

Except as required by law, and only to the extent so required, neither the Company nor any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

Applicants should carefully consider the risk factors that affect the Company specifically and the industry in which it proposes to operate. Applicants should understand that an investment in the Company is both speculative and subject to a wide range of risks and that, even if the Company successfully demonstrates the feasibility of its business model, it is possible that Applicants may lose the entire value of their investment.

Selling restrictions

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus has been prepared to conform to the securities laws in Australia.

This Prospectus may not be distributed to, or relied upon by, any person in the United States. In particular, the Shares have not been, and will not be, registered under the US Securities Act of 1933, (**US Securities Act**) or the Securities laws of any state of the United States and may not be offered or sold in the United States unless the Shares are registered under the US Securities Act, or are offered or sold in a transaction exempt from, or not subject to the registration requirements of the US Securities Act and applicable US state Securities laws is available.

Privacy

By filling out the Application Form to apply for Shares, you are providing personal information to the Company through the Share Registry, which is contracted by the Company to manage applications. The Company and the Share Registry on their behalf, may collect, hold, use and disclose that personal information for the purpose of processing your Application, servicing your needs as a Shareholder, providing facilities and services that you need or request and carrying out appropriate administration.

If you do not provide the information requested in the Application Form, the Company and the Share Registry may not be able to process or accept your Application. Your personal information may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you.

Your personal information may also be provided to the Company's agents and service providers on the basis that they deal with such information in accordance with the Company's privacy policy. The agents and service providers of the Company may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of members;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Company will include information about the Shareholder (including name, address and details of the Shares held) in its public register of members. The information contained in the Company's register of members must remain there even if that person ceases to be a Shareholder. Information contained in the Company's register of members is also used to facilitate dividend payments, corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements. An Applicant has a right to gain access to their personal information that the Company and the Share Registry hold about that person, subject to certain exemptions under law.

A fee may be charged for access. Access requests must be made in writing or by a telephone call to the Company's registered office or the Share Registry's office, details of which are disclosed in the corporate directory on the final page of this Prospectus. Applicants can obtain a copy of the Company's privacy policy by visiting the Company's website, <https://www.securitymattersltd.com/>.

By submitting an Application, you agree that the Company and the Share Registry may communicate with you in electronic form or contact you by telephone in relation to the Offer.

Use of trademarks

This Prospectus includes the Company's registered and unregistered trademarks. All other trademarks, tradenames and service marks appearing in this Prospectus are the property of their respective owners.

Contents

Key Offer Details and Important Dates	03
Chairman's Letter	04
1. Investment Overview	06
2. Industry Overview	22
3. Business / Company Overview	25
4. Financial Information	34
5. Risk Factors	46
6. Key People, Interests and Benefits	50
7. Details of the Offer	64
8. Investigating Accountant's Report and Financial Services Guide	72
9. Patent Report	77
10. Additional Information	93
11. Glossary	102
General Offer Application Form	105
Corporate Directory	109

Key Offer Details

	Minimum Subscription (\$5 million)	Maximum Subscription (\$6.5 million)
Offer price per Share	\$0.20	\$0.20
Shares on issue before the Offer	55,500,041	55,500,041
Shares available under the Offer	25,000,000	32,500,000
Performance Options to be issued to executive Directors under Share Option Plan	15,000,000	15,000,000
Other Options allocated under Share Option Plan	8,805,864	8,805,864
Options to be issued to the Lead Manager	5,227,541	5,602,541
Options to be issued to certain Existing Shareholders	4,000,000	4,000,000
Shares to be issued to Noteholders	11,999,959	11,999,959
Gross proceeds from the Offer¹	\$5 million	\$6.5 million
Total number of Shares on issue at Completion of the Offer	92,500,000	100,000,000
Total number of Options (including Options to Existing Shareholders and Performance Options) on issue at Completion of the Offer	33,071,157	33,446,157
Total number of securities on issue at Completion of the Offer²	125,571,157	133,446,157
Indicative market capitalisation of the Company at the Offer Price²	\$18,500,000	\$20,000,000

Important dates³

Original Prospectus lodged with ASIC	24 July 2018
Lodgement of Prospectus	7 August 2018
Opening Date of Offer	7 August 2018
Closing Date of Offer	4 September 2018
Expected Allotment Date of Shares	11 September 2018
Shares expected to trade on ASX (on a normal settlement basis)	18 September 2018

¹ Funds will only be raised under the Offer.

² Market capitalisation excludes unquoted securities. No Options will be quoted.

³ This timetable is indicative only. Unless otherwise indicated, all times given are AEST. The Company, in consultation with the Lead Manager, reserves the right to vary any and all of the above dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Closing Date, or to accept late Applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Completion of the Offer, in each case without notifying any recipient of this Prospectus or Applicants). If an Offer is cancelled or withdrawn before Completion of that Offer, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after an Offer opens.

Chairman's Letter

Dear Investor,

On behalf of the Board of Security Matters Limited, it is my pleasure to present this Prospectus to you for our initial public offering on the ASX.

The Company is the next generation solution to address the anti-counterfeit, brand protection, client liability and track and trace markets. The Company has developed a suite of integrated solutions to solve both authentication and track and trace challenges in order to uphold supply chain integrity, and provide quality assurance and brand accountability to producers of goods.

The Company's vision is to build trust and confidence in the era of the digital economy to enable parties to maintain trust in physical assets and processes. We intend to be the global record of authenticity and quality for physical goods. We aim to bridge the physical and digital world via a common trusted verification technology.

We believe that the Australian economy is the suitable place to develop this technology and by being an Australian public company we aim to scale the Company up to become a global leader.

The funds raised will be used for business development and sales in order to drive revenue growth for the existing solutions provided by the Company's wholly owned subsidiary, Security Matters Israel. Funds raised will also be used to continue the commercialisation of the Company's technology through developing a new proprietary Reader, bank of Markers and a blockchain platform.

The purpose of the Offer is to raise \$5 million with the capacity to go up to \$6.5 million under the Offer via the issue of at least 25,000,000 Shares at \$0.20 per Share.

This Prospectus includes detailed information about the Offer, as well as the financial position, operations, management team, material risks and plans associated with an investment in the Company. I encourage you to read this Prospectus carefully and in its entirety before making your investment decision and, if required, consult with your stockbroker, solicitor, accountant or other independent professional adviser.

On behalf of the Board, I present the Offer to you and recommend that you read this Prospectus in full. I look forward to welcoming you as a supportive shareholder of the Company.

Yours sincerely,



Ed Hofland,
Executive Chairman

The Team



1



2



3



4



5



6



7



8



9



10



11



12



13



14



15



16



17



18



19

All that matters, the team

- 1 Haggai Alon, Founder, Executive Director, Chief Executive Officer
- 2 Nadav Yoran, Ph.D, Head of IP, Algorithm and Blockchain
- 3 David Rosenblatt, Executive Director and Vice-Chairman
- 4 Yair Seroussi, CPA, Advisory Board Member
- 5 Jovanka Naumoska, Australian based Non-Executive Director and Independent Director
- 6 Yair Grof, Ph.D, Vice President and Chief Scientist
- 7 Michal Firstenberg, Ph.D, Head of Marker Department
- 8 Dr Gregory J Clark AC, Australian based Non-Executive and Independent Director
- 9 Leon Kempler AM, Advisory Board Member
- 10 Everardus (Ed) Hofland, Executive Chairman

- 11 Eng. Nachum Holin, Thermoplastic Markers Product Manager
- 12 Yonatan Musnikow, CFO
- 13 Eng. Mor Kaplinsky, Physics Applications Manager
- 14 Dmitrijs Docenko, Ph.D., Head of Physics Application Development Department and Scientific Programming
- 15 Avital Trachtman, Bs.C, Account and Product Manager
- 16 Amir Bader, Non-Executive Director
- 17 John Poynton, AO, Advisory Board Member
- 18 Yifat Bareket, Ph.D, VP Global Product Manager
- 19 Major General Ami Shafran, Head of Advisory Board

1. Investment Overview

1.1 Overview of Security Matters and key features of its business model

Topic	Summary	Further information
Who is Security Matters?	<p>Security Matters Limited (ACN 626 192 998) (Security Matters or the Company) is an Australian company, which was incorporated on 16 May 2018.</p> <p>Through Security Matters Ltd. (Company number 515125771) (a company incorporated in, and registered under the laws of Israel) (Security Matters Israel), the Company provides brand protection and supply chain integrity solutions to businesses. The Company implants an ‘embedded marker’ within raw materials or finished goods and uses a unique reader in order to identify that marker. This allows the Company to track and trace the authenticity of materials in any medium (solids, liquids or gases) throughout an entire production process.</p> <p>The Company intends to settle the acquisition for all of the shares in Security Matters Israel immediately prior to Completion of the Offer (Security Matters Israel Acquisition). Immediately prior to Completion of the Offer, Security Matters Israel will become a wholly owned subsidiary of the Company.</p> <p>For the purpose of this Prospectus, the Company means the Company and its wholly owned subsidiary as at Listing, Security Matters Israel, as if completion of the Security Matters Israel Acquisition has occurred.</p>	Sections 3 and 10.4
What is the Company’s history?	<p>In January 2015, Security Matters Israel entered a licence agreement with Isorad Ltd (a company wholly owned by the State of Israel with rights to exclusively commercialise the Soreq Research Center technology for civilian uses) (Isorad) to license the Source IP and commercialise and develop the technology further (Isorad Licence Agreement). Under the Isorad Licence Agreement, the Source IP can be utilised in any industry and with any product, with the exception of a small number of industries which are listed in Sections 3.16. The Source IP has been the cornerstone for the Company’s technological developments. See Section 3 for further information on Soreq, the Source IP and the Isorad Licence Agreement.</p> <p>Since entering into the Isorad Licence Agreement, Security Matters Israel has filed 12 additional patent applications (three independently and nine together with Soreq).</p> <p>The Company believes that there is a real market need for a product authentication, supply chain integrity, brand accountability and quality assurance technology used in authentication and track and trace processes that cannot be removed or discovered by third parties.</p> <p>Since Security Matters Israel’s incorporation, an aggregate amount of US\$4.45 million was invested in Security Matters Israel by several investors under a number of different investment rounds. More recently, in May and June 2018 an additional \$1.68 million (before costs and expenses) was raised as a pre-IPO convertible note issue.</p> <p>This investment excludes the significant investment made by the State of Israel in the development of the Source IP.</p>	Sections 3.1, 3.16(c), 7.6 and 10.15
What is the Company’s main business activities?	<p>The Company licences, owns and commercialises the technology to permanently and irrevocably ‘mark’ virtually any object, either solid, liquid or gas, allowing identification, proof of authenticity, brand protection, tracking supply chain movements and quality assurance for countless products in most industries.</p> <p>The Company’s technology comprises a sub-molecular based hidden ‘barcode’ system, alongside a unique ‘reader’ to identify these ‘codes’, and a record to store and protect ownership data.</p>	Sections 3.2 and 3.3

1. Investment Overview

1.1 Overview of Security Matters and key features of its business model *continued*

Topic	Summary	Further information
What is the Company's main business activities? <i>continued</i>	<p>The Company provides a turnkey solution to solve both authentication and track and trace challenges in production and post-production processes while at the same time striving to uphold supply chain integrity and provide quality assurance and brand accountability to producers of goods.</p> <p>The Company's technology works as a track and trace system using a 'Marker', a unique 'Reader', and a unique algorithm embedded within the Reader and recording system.</p> <p>Markers are embedded sub-molecular particles applied to any type of raw material (e.g. solids, liquids or gases).</p> <p>A Reader is a patented wavelength spectral profiling system that 'reads' Markers by the detection of energy from the 'read' object in response to an energy-ray applied to it.</p> <p>A Reader identifies a Marker in order to track and trace a product or raw material (as a stand-alone Reader or by way of cloud-based verification technology) from the inception of the production process (or any other marked good along a supply chain) all the way to the end customer.</p> <p>Each identification of a Marker is stored, either locally on the Reader, on private servers, cloud servers or on a blockchain record to store and protect data ownership.</p> <p>Markers can denote unique meanings for each product, batch and geography, resulting in a single or multipoint identification process. Unique meanings ascribed to Markers include origins of manufacturing, product provenance and date of production to the end customer. A common use is simply to use Markers to confirm the authenticity of a good or material.</p> <p>Markers can be embedded and identified in solids, liquids or gases.</p> <p>For more information as to how the Company marks products and materials, please see Section 3.3.</p>	Sections 3.2 and 3.3
What is the Company's business model?	<p>The Company targets leading brands and manufacturers (instead of targeting direct consumers) in order to create a new market standard for brand authentication and supply chain integrity.</p> <p>The Company has two main features of its business model:</p> <ol style="list-style-type: none">The Company as a business to business company; andThe Company offering a 'white label' solution. <p>The Company in some instances will work directly with the brand owner and manufacturer of the products or through the manufacturer's raw material supplier, so that the manufacturer does not require material modification to its manufacturing process in order to implement the Company's technology in the production process.</p> <p>The first step is to gain the trust of raw material producers, which should in turn give the Company the credibility to attract and supply solutions to brand owners, manufacturers and suppliers. This is a key step in the continual success of the Company.</p> <p>The Company's pricing is based on the perceived value proposition of the Company's solution for the customers. This generally includes three stages to the pricing model (which aligns with the three business activities described below):</p> <ol style="list-style-type: none">set up fee (for initial consultations);Marker implementation fee (typically on a per item or per kg basis); andservice fee (for reading, blockchain services and other support services).	Section 3

1. Investment Overview

1.1 Overview of Security Matters and key features of its business model *continued*

Topic	Summary	Further information
How does the Company generate revenue?	<p>In order for the Company to provide its turnkey authentication and track and trace solution, there are typically three phases of customer engagement:</p> <p>Phase 1: Initial Consultations</p> <p>The Company adapts solutions on a case-by-case basis in order to satisfy individual customer's specifications (i.e. specific materials used for the Marker; the number of Markers used in the production process; the manner in which a Marker is included in the production cycle; the appropriate Reader specifications; and the specific software to be used for the track and trace system to be implemented).</p> <p>The consultation process provides information on the suitability of incorporation of the Company's technology into the customer's particular product, as well as the customer's requirements and limitations.</p> <p>Phase 2: Marker Implementation</p> <p>The Company implements each Marker using the method agreed with the customer during the initial consultation period. Some products may require the Markers to be embedded in the raw materials, while others require the Marker to be a topical or surface solution (applied directly to a part or product).</p> <p>The Company will also implement the software solution (whether as on premises solution, cloud or blockchain solution) for the customer so that, any Marker reading can be stored on the required software, which may be used for support purposes.</p> <p>Phase 3: Ongoing Support Services</p> <p>The Company will provide Reader technology to the customer (including the sale or lease of Readers) and, in some cases, technical training on Reader use and applications of Markers to the customer's raw materials. In some cases, the Company may also offer to provide reading service for the customers.</p> <p>Following the implementation of the Markers and the provision of the associated Readers required for the customer, the Company will provide complete support services for the track and trace technology at the customer's designated locations.</p> <p>Finally, the Company will maintain the integrity of the software solution on behalf of the customer.</p>	Section 3
Does the Company have plans to expand on its business model?	<p>The Company does not intend to change its current business model. The current model provides sufficient flexibility in providing tailored solutions including Markers, Readers and services to the Company customers.</p>	Section 3

1. Investment Overview

1.1 Overview of Security Matters and key features of its business model *continued*

Topic	Summary	Further information
What are the goals of the Company following the IPO?	<p>Short to medium term strategy</p> <p>One of the main goals of the Offer is to enable the Company to raise funds for the following development projects (as part of the commercialisation of its products):</p> <p>1. Reader technology</p> <p>Currently, the Company utilises a modified version of a generic reader of x-ray waves. The changes to the reader are completed at the Company's physics laboratory to adapt the devices to the Company's applications. The changes made by the Company to the Reader and its algorithm make the Company's detection method unique.</p> <p>The Company intends to develop, design and produce a prototype Reader (Security Matters Reader) for applications across a number of different industries. It will undertake the modelling and unique design and own the intellectual property relating to the Security Matters Reader, while outsourcing the production to electronics manufacturers.</p> <p>The Company's unique software will be embedded within the Security Matters Reader and, along with an optimised ergonomic design, the Security Matters Reader is expected to be produced at low-cost.</p> <p>Dr Yair Grof will lead the Security Matters Reader development programme. Dr Yair Grof has already led similar projects to produce similar Readers for other applications.</p> <p>2. Marker development</p> <p>The Company has already identified numerous materials and compositions that are suitable as Markers and the Company is already using these materials as Markers for its current customers. The Company seeks to undertake further research and development in order to develop a library of Markers that can be applied across a number of different industries and sectors.</p> <p>Pursuant to the Company's strategy outlined above, the Company intends to prioritise the development of Markers for the plastics (including packaging), electronics and precious metals industries.</p> <p>Dr Michal Firstenberg leads the Company's Marker development programme.</p> <p>3. Blockchain and cloud solution</p> <p>The Company is developing a blockchain solution that is in early stage development and requires further financing to develop it into a fully operational blockchain solution for the storage and recall of Marker readings. This will further the Company's goal to be the global record of authentic physical goods.</p> <p>4. Business development and sales</p> <p>Funds received from the Offer will be allocated to recruit business development managers with the aim to accelerate the market adoption of the Company's solution. The Company aims to recruit an experienced Chief Marketing Officer (CMO) with a successful track record in the target markets, including electronics, precious metals and plastics.</p> <p>The business development efforts within the Australian market will be led by John Poynton AO and Jindalee Partners. The Company has engaged Jindalee Partners as the Company's strategic business development partner in Australia. Please refer to Section 10 for further information.</p> <p>The business development efforts outside of the Australian market will be led by two of the Company's directors, David Rosenblatt and Dr Gregory Clark. Please refer to Section 6.1 for further information regarding David Rosenblatt's and Dr Gregory Clark's experience.</p>	Section 3.12

1. Investment Overview

1.1 Overview of Security Matters and key features of its business model *continued*

Topic	Summary	Further information
What are the goals of the Company following the IPO? <i>continued</i>	<p>Long term strategy</p> <p>The long term strategy of the Company is to become the global record of physical goods. The manner in which the Company intends to go about implementing this strategy is in three stages:</p> <p>1. Market Leader Adoption</p> <p>The Company has commercial arrangements with global market leaders for the adoption of its technology and for mutual research and development projects within a variety of industries.</p> <p>The goal is for the Company to focus on supplying services to worldwide market leaders in various industries.</p> <p>2. Become the Industry Standard</p> <p>After market leader adoption of the Company's technology, the Company aims for its solution to become the industry standard in at least one of a number of key industries, with the help of its customers.</p> <p>3. Regulatory Adoption</p> <p>After proving the benefits of the Company's technology in several industries, the Company aims to be adopted by regulators as an industry standard.</p> <p>The Company's intention at this stage is to engage with market leaders as partners and customers of the Company's technology (stage one referred to above).</p> <p>For further information on the proposed use of funds under the Offer, please see Section 7.3 of this Prospectus.</p>	Section 3.12
What jurisdictions does the Company operate in?	<p>The Company is based in Australia, while Security Matters Israel is based in Israel but has commercial arrangements in place in Australia, US, Canada and Europe. The Company ultimately plans to provide its services to the global marketplace. At this stage, the Directors are not aware of any restrictions on where the Company may market or provide its services and technology.</p>	Section 3 and Section 10
What patents does the Company hold?	<p>Please refer to the Patent Report at Section 9 for a comprehensive summary of the Company's patent applications.</p>	Section 9
What are the key investor highlights?	<p>The Directors are of the opinion that an investment in the Company provides the following non-exhaustive list of key highlights:</p> <ol style="list-style-type: none">i) the funds raised under the Offer will allow the Company to advance development of its technology and pursue its strategy set out in Section 3.8;ii) the Company is exposed to a large and growing addressable market which has the potential to grow significantly;iii) the Company has a highly aligned Board, Management team and development team with extensive commercial and technical experience to deliver on the Company's growth strategies;iv) the Company has close relationships with high quality current and potential customers;v) the Source IP is proven and is already in use by the State of Israel; andvi) the Company's technology is compatible for many industries, and it is in the midst of pilot programs, early stage trials and negotiations with several industry leaders across multiple industries for the adoption of a Company developed solution for the mutual commercialisation of a solution.	

1. Investment Overview

1.2 Key strengths

Topic	Summary	Further information
Innovative Technology	<p>The Company's technology is proven for the marking and identification of products.</p> <p>The Company's technology can serve various manufacturers' needs: brand protection, authentication, track and trace for supply chain integrity and quality assurance.</p> <p>The Company's technology has the potential to disrupt several industries and enable manufacturers and brand owners to truly protect their products.</p>	Section 3
Growing market segment and large addressable market	<p>Counterfeit products and materials are a constant concern to brand owners with US\$1.77 trillion the estimated value of global trade in counterfeit and pirated goods in 2015, according to the OECD.</p> <p>Accordingly, the anti-counterfeiting industry is growing as corporates and governments invest resources in protecting goods and intellectual property. The global spend by governments and corporate entities combating counterfeit products and materials is expected to reach US\$284 billion by 2020.</p>	Section 2
Experienced development tech team	<p>The Company's technology team is an experienced team of professionals, with a proven track record in the industrial sector and governmental agencies. The technology team is comprised of five full time Ph.Ds in chemistry and physics with expertise in the fields of nuclear physics and applied chemistry of more than 20 years, as well as engineers with experience in the plastics and electronics industries.</p>	Section 10.3
Experienced Board and Management	<p>The Company has an experienced Board of Directors comprising executive, non-executive and non-executive/independent directors.</p> <p>The Board is comprised of Directors with a strong understanding of the Company's technology, experience leading emerging technology companies from start-up to large scale profitable companies and two directors with ASX board experience.</p> <p>The management team are also experienced in leading emerging technology companies from start-up to large scale profitable companies.</p> <p>The Company has also established an experienced Advisory Board to assist it in business development and marketing efforts in Australia and internationally.</p>	Section 6.1
Cross segment activity	<p>The Company's technology is applicable for several industries and the Company is currently active or in negotiations with corporates in the following markets:</p> <ul style="list-style-type: none">– plastics;– electronics;– precious metals;– raw materials;– access control; and– agriculture. <p>The growth potential of the Company is derived from the ability of the Company to provide an adapted solution for many market segments, based on a unified technology solution. This feature also serves to mitigate the risk of slow adoption or competition in one of the sectors.</p>	Section 3

1. Investment Overview

1.2 Key strengths *continued*

Topic	Summary	Further information
Collaborative Relationships with Companies	<p>In July 2017, Security Matters Israel entered into a collaboration agreement with Kafrit Industries (Kafrit), a leading global plastic compound and Masterbatch manufacturer. Through this partnership the Company has access to sell to leading packaging and the plastic products manufacturers. As part of the collaboration agreement, Kafrit invests resources for marketing and sales, as well as covers costs for research and development of new Markers for the plastic industry and embedding Markers within Kafrit's compounds at its manufacturing sites. Additionally, the completion stage of the production of the Markers for joint customers of Kafrit and the Company is performed at Kafrit's global manufacturing sites.</p> <p>In May 2018, Security Matters Israel entered into a Memorandum of Understanding with Gold Corporation (ABN 98 838 298 431) (trading as The Perth Mint) (The Perth Mint) for the mutual development of a marking and reading solution for the gold mining and refining sector incorporating the Company's technology. The next stage in the process is for the parties to enter into a legally binding agreement.</p> <p>The Company's strategy is to create strategic partnerships with market leaders across its main segments of activity. It is in advanced negotiations with several market leaders for collaboration agreements.</p>	Section 3 and Section 10.7
Intellectual Property	<p>In addition to trade secrets, the Company has protection over its products and technology, underpinned by a combination of Patent Applications and trademarks. Security Matters Israel has submitted Patent Applications in key markets, affording certain competitive protections. Security Matters Israel has filed 12 Patent Applications which are at different stages (three independently and nine together with Soreq).</p> <p>For a complete overview of Patent Applications please refer to the Patent Report at Section 9.</p> <p>The Company, through its team and accumulated work, holds the know-how for end to end brand protection solution: from leading chemists for the marking phase, through to experienced physicists for the identification technology and algorithm specialists. The three elements combined, provide a stronger protection for the technology and the solution provided to customers.</p>	Section 9

1.3 Key risks

Isorad Licence Agreement	<p>The Source IP licenced to the Company from Isorad under the Isorad Licence Agreement forms the basis of the Company's technology.</p> <p>The Isorad Licence Agreement will continue in full force and effect in perpetuity unless terminated. If either party does not remedy a material breach of its obligations within 180 days of notice of the material breach, the non-defaulting party may terminate the Isorad Licence Agreement immediately. Isorad may terminate the agreement by providing 30 days prior written notice if the royalties payable to Isorad are \$nil in any semi-annual report or the Company has breached other certain obligations (such as a failure to maintain a patent or patent application in the previous semi-annual review period).</p> <p>The termination of the Isorad Licence Agreement may have a material adverse effect on the Company.</p>
---------------------------------	--

1. Investment Overview

1.3 Key risks *continued*

Topic	Summary	Further information
Intellectual Property Rights	<p>The Company has applied for three patents independently and nine with Soreq as described in the Patent Report.</p> <p>While the Company is not aware of the Patent Applications and the Company's technology infringing any third party's patents, it has not undertaken an exhaustive assessment of existing patents to determine any overlapping technology or potential infringement, as the costs of such would be prohibitive. Accordingly, there is a risk that a third party may claim that the Patent Applications infringe that third party's patent.</p> <p>Any event that would jeopardise the Company's proprietary rights or any claims of infringement by third parties may be costly to defend, may result in an award of damages and could have an adverse effect on the Company's ability to market or exploit its technology.</p> <p>There is no guarantee that the Company's proposed patents the subject of the Patent Applications will provide adequate protection for the Company's intellectual property, or that third parties will not infringe or misappropriate the patents or similar proprietary rights. In addition, there can be no assurance that the Company will not have to pursue litigation against other parties to assert its rights.</p> <p>Section 2 of the Patent Report sets out the limitations of protection connected to the Patent Applications. There is no guarantee that any of the 12 patents that have been applied for will be granted. The Patent Report considered that certain claims made in the Patent Applications are either not novel, lack an inventive step or both. If some or all of the Patent Applications are not granted, the Company's ability to exploit its technology may be materially adversely affected.</p>	Section 5
Reliance on key personnel	<p>The Company's research and development and its operational success will substantially depend on the continued employment of senior executives, technical staff and other key personnel. While the Company considers that the impact of turnover of manufacturing personnel is mitigated by having a streamlined and easily communicable assembly process, the loss of key management personnel may have a detrimental impact on the Company.</p> <p>Although Security Matters Israel's employment agreements contain non-compete clauses, Israeli law may not fully enforce employees' non-compete obligations and may limit their application, including with regard to duration and scope. The non-compete provisions in Security Matters Israel's standard agreement survives for a period of 24 months after termination of the employment.</p> <p>Under Israeli case law an Israeli Court will usually only enforce non-compete provisions if the employee received specific consideration for it. The standard employment agreement does not provide extra consideration meaning the enforceability of such provisions in Israeli is uncertain.</p>	Section 5
Customer preferences	<p>The Company's business is dependent on consumer awareness and market acceptance of its products. The Company may not be able to anticipate and react to trends within the anti-counterfeit industry in a timely manner or accurately assess the impact that such trends may have on customer preferences. Failure to respond to changes in customer preferences or anticipate market trends may adversely affect the Company's future revenues and performance.</p> <p>The development of the Security Matters Reader or other new products and the market adoption of the Security Matters Reader or other new products may take longer than expected, which may delay growth in the Company's revenue streams and adversely impact on the Company's operating results and financial position.</p> <p>Although the Company has striven to establish market recognition for its products in the anti-counterfeit industry, it may be too early in the life cycle of the Company's brand to determine whether Markers, Readers, blockchain technology and any further technology developed by the Company will achieve and maintain satisfactory levels of acceptance and sustained take-up by customers.</p>	Section 5

1. Investment Overview

1.3 Key risks *continued*

Topic	Summary	Further information
Uncertainty of future earnings	Security Matters Israel's business operations are still relatively early-stage and its future prospects are uncertain.	Section 5
Health and Safety risks	<p>The Markers used by the Company are produced from materials chosen for a specific application. Markers may, in some cases, include incredibly low concentrations of hazardous materials. The production of the Markers by the Company's employees includes, in some cases, dealing with hazardous materials. This is conducted in accordance with the material safety data sheets and other relevant safety guidelines. These hazardous materials are not radioactive and are chemical substances.</p> <p>The hazardous materials are utilised at low concentrations (of the Marker) and therefore constitute a very low risk for the Company's customers. The risk of misuse or error in production in rare cases may cause damage to the Company's employees, which may affect the Company's expenses and production.</p> <p>To mitigate the risk, the Company is in compliance with the requirements of the ISO 9001:2015 standard for quality management and quality assurance and implements the safety measures recommended by an external safety engineer engaged by the Company.</p>	Section 5
Quality risks	There is a risk that the Marker may contaminate the raw material or that certain raw material ingredients may be spoiled, contaminated by other chemicals, microorganisms or toxins, or include foreign materials or substances. The risk of contamination may lead to product recalls or other interventions, which may cause serious damage to the Company's reputation, product liability claims and loss of revenue.	Section 5
Regulation risks	The Markers must comply with health and safety laws in a wide range of jurisdictions, and failure to comply with such laws may lead to penalties and other liabilities being imposed on the Company. In such circumstances, the Company may be required to suspend production or cease operations, which may lead to a materially adverse effect on the Company's financial performance and profitability.	Section 5
Development and commercialisation	<p>The success of the Company post Listing will depend on the Company's ability to develop and commercialise the Company's technology. A failure to successfully develop and commercialise the Company's technology could lead to a loss of opportunities and adversely impact on the Company's operating results and financial position.</p> <p>If the Company fails to effectively manage its growth, including a failure to effectively invest in its systems and process to support the development of the business, it may adversely impact on the Company's operating results and financial position.</p>	Section 5
Increasing Competition	<p>There are several competitors that operate in the anti-counterfeit and track and trace packaging industries, but the Directors consider that there are currently few, if any, competitors with the technological abilities and solutions to match the Company's solutions.</p> <p>Additionally, the growing demand for brand protection solutions allows for several quality competitors to exist in the market. However, if new competitors enter the segment, or established companies develop new products and technologies that are superior to the Company's current technology, the Company's ability to successfully exploit its technological advantage may be affected. The Company may be unable to develop further products or keep pace with developments in its market space, and may lose market share to competitors. If the Company's competitors develop a more efficient business model or undertake a more aggressive marketing campaign, this is likely to adversely affect the Company's marketing strategies and operational performance.</p>	Section 5

1. Investment Overview

1.3 Key risks *continued*

Topic	Summary	Further information
Counter party risk	<p>The Company has and will engage with a number of counterparties to successfully commercialise and exploit its technology. Due to its early stage, the Company is party to a number of commercial arrangements with counter parties that are informal, non-revenue generating, non-binding or in pilot phase. There is no guarantee that these commercial arrangements will result in the Company entering into binding, revenue generating agreements with some or all of these counterparties.</p> <p>Further, if relationships with some or all of these parties break down, or these parties fail to perform their obligations, then the Company's operational performance may be adversely affected.</p>	Section 5

1.4 Financials and dividend policy

Changes to laws, regulations and standards	Any changes to the existing regulatory framework or the imposition of new legislation or regulations applicable to the industry in which the Company operates may adversely affect the financial and operating performance of the Company.	Section 5
---	--	-----------

Liquidity of Shares	Following Completion of the Offer, the following restrictions will apply to Shares:	Section 7.15
----------------------------	---	--------------

	Minimum Subscription	Maximum Subscription
Total % mandatorily escrowed under the ASX Listing Rules (Existing Shareholders and Noteholders)	46.89%	43.37%
Total % voluntarily escrowed (Existing Shareholders and Noteholders) ¹	19.57%	18.11%

1. For more information on the escrow position of the Existing Shareholders and Noteholders, please see Section 1.6 and Section 7.15 of the Prospectus.

These Shareholders' escrow position may limit the liquidity of the market for the Shares during this escrow period.

What is the key financial information you need to know about the Company?	Set out below is a selected summary of the Company's Pro Forma historical consolidated Statement as at 31 December 2017:	Section 4 and Section 8
--	--	-------------------------

Item	Pro Forma historical consolidated Statement as at 31 December 2017 (Minimum Subscription) (\$000)	Pro Forma historical consolidated Statement as at 31 December 2017 (Maximum Subscription) (\$000)
Cash	5,235	6,626
Net Tangible Assets	486	486
Net Assets	5,121	6,512

Please refer to Section 4 for the Pro Forma Financial Information and Section 8 for the Investigating Accountant's Report.

Dividend Policy	The Directors intend to use the Company's current cash reserves and any surplus cash flow to fund the Company's operations and activities, rather than distributing these funds as dividends. This policy will be reviewed when the Company starts generating cash but there is no present intention to implement a dividend policy at any time in the foreseeable future.	Section 4
------------------------	--	-----------

1. Investment Overview

1.5 Directors and key management

Topic	Summary	Further information
Who are the Directors of the Company?	<p>The Directors of the Company are:</p> <ul style="list-style-type: none">– Everardus (Ed) Hofland (Executive Chairman);– Haggai Alon (Chief Executive Officer);– David Rosenblatt (Vice-Chairman and Executive Director);– Amir Bader (Non-Executive Director);– Jovanka Naumoska (Australian based Non-Executive and Independent Director); and– Dr Gregory Clark AC (Australian based Non-Executive and Independent Director). <p>See Section 6.1 for further details of the Directors.</p>	Section 6.1
Who are the members of the Company's Advisory Board?	<p>The Company's Advisory Board comprises:</p> <ul style="list-style-type: none">– Major General Ami Shafran (Head of Advisory Board);– John Poynton, AO (Advisory Board Member);– Yair Seroussi, CPA (Advisory Board Member); and– Leon Kempler, AM (Advisory Board Member). <p>See Section 6.3 for further details of the Advisory Board.</p>	Section 6.3

1.6 Significant interests of key people and stakeholders

Who are the Existing Shareholders and what will be their interest in the Company at Completion of the Offer?	<p>As at the date of this Prospectus, Security Matters Israel's share capital is held by directors, key employees and seed shareholders of Security Matters Israel (Existing Shareholders).</p> <p>Immediately prior to Completion of the Offer, the Existing Shareholders will be issued 55,500,041 Shares in the Company in consideration for the completion of the Security Matters Israel Acquisition on a pro-rata basis to their holding in Security Matters Israel.</p> <p>After Completion of the Offer, the Existing Shareholders will hold 60.0% of the Company's fully diluted share capital assuming that the Minimum Subscription is achieved and 55.5% of the Company's fully diluted share capital assuming that the Maximum Subscription is achieved.</p> <p>Note: this excludes unlisted Options and Performance Options post Completion of the Offer.</p>	Section 7.8															
Does the Company currently have any Options on issue?	<p>The Company does not have any Options on issue as at the date of the Prospectus. On Completion of the Offer, the Company will issue unlisted Options as follows:</p> <table><thead><tr><th>Recipient</th><th>Minimum Subscription</th><th>Maximum Subscription</th></tr></thead><tbody><tr><td>Existing Shareholders</td><td>4,000,000 Options</td><td>4,000,000 Options</td></tr><tr><td>Lead Manager</td><td>5,227,541 Options</td><td>5,602,541 Options</td></tr><tr><td>Allocation under the Share Option Plan</td><td>8,805,864 Options</td><td>8,805,864 Options</td></tr><tr><td>Executive Directors</td><td>15,000,000 Performance Options</td><td>15,000,000 Performance Options</td></tr></tbody></table> <p>There will be no options in Security Matters Israel after Completion of the Offer.</p>	Recipient	Minimum Subscription	Maximum Subscription	Existing Shareholders	4,000,000 Options	4,000,000 Options	Lead Manager	5,227,541 Options	5,602,541 Options	Allocation under the Share Option Plan	8,805,864 Options	8,805,864 Options	Executive Directors	15,000,000 Performance Options	15,000,000 Performance Options	Section 7
Recipient	Minimum Subscription	Maximum Subscription															
Existing Shareholders	4,000,000 Options	4,000,000 Options															
Lead Manager	5,227,541 Options	5,602,541 Options															
Allocation under the Share Option Plan	8,805,864 Options	8,805,864 Options															
Executive Directors	15,000,000 Performance Options	15,000,000 Performance Options															

1. Investment Overview

1.6 Significant interests of key people and stakeholders *continued*

Topic	Summary				Further information
Are there any significant interests or benefits payable to Directors of the Company or other related parties? <i>continued</i>	Stakeholder	Relationship to Company	Benefit	Reason	Section 6.4
	Doron Afik	Consultant (Israeli Legal Adviser)	961,050 Shares	Shares to be issued as a Noteholder	
	Degania A Business Agricultural Co-operative Society Ltd	Related Party (Amir Bader)	1,382,322 Options	Consideration for services provided in relation to IPO and company management	
	Kafrit Industries (1993) Ltd	Counterparty and Existing Shareholder	1,311,868 Shares	Consideration for the Security Matters Israel Acquisition	
			174,794 Options	Consideration for services provided in relation to IPO	
	Le'mofet Holdings 2000 Ltd. (as trustee for Isorad Ltd.)	Counterparty and Existing Shareholder	472,507 Shares	Consideration for the Security Matters Israel Acquisition.	
			62,957 Options for services provided to Company	Share Option Plan Options for consultancy services provided under the Isorad Licence Agreement.	
			365,000 Options under ESOP		
RM Corporate Finance Pty Ltd	Lead Manager	5,227,541 Options (Minimum Subscription)	Consideration for Lead Manager services provided to the Company		
		5,602,541 Options (Maximum Subscription)			
Main Break Holdings Pty Ltd	Related party to the Lead Manager	153,571 Shares	Shares to be issued as a Noteholder		
<ol style="list-style-type: none"> 1. Ed Hofland (Director of the Company) is a member of Kibbutz Ketura. Kibbutz Ketura holds 50% of Energy Ketura Cooperative Agricultural Society Ltd.; 2. Amir Bader (Director of the Company) is a member of Kibbutz Degania A which owns Degania A Business Agricultural Cooperative Society Ltd; 3. Haggai Alon's (Director/CEO of the Company) securities are held by Benguy Escrow Company Ltd. (as escrow agent); 4. David Rosenblatt (Director of the Company) controls Security Matters Investment LLC (a private company incorporated in the United States) and holds 50% of Energy Ketura Cooperative Agricultural Society Ltd; 5. See Section 10 for the key terms of the Lead Manager Mandate, the Performance Options and Options being issued Existing Shareholders; and 6. Main Break Holdings Pty Ltd is the trustee of Nathan Barbarich's family trust. Nathan Barbarich is an executive at the Lead Manager. 					
Convertible Notes	In May and June 2018, Security Matters Israel raised from Australian and non-Australian based investors (Noteholders) \$1.68 million by way of unsecured notes convertible into shares of the Company upon Completion of the Offer at \$0.14 per Share calculated as a 30% discount to the Offer Price.				Section 10.15

1. Investment Overview

1.6 Significant interests of key people and stakeholders *continued*

Topic	Summary	Further information									
Will any Shares or Option be subject to restrictions on disposals following Completion of the Offer?	<p>No Shares issued to unrelated parties under the Offer will be subject to escrow.</p> <p>Part of or all of the:</p> <ul style="list-style-type: none"> – Shares, Performance Options and Options to be issued to Existing Shareholders and related parties; – Shares to be issued to Noteholders; – Options to be issued the Lead Manager; – Options to be issued under the Share Option Plan; and – any Shares issued to related parties of the Company under the Offer, <p>will be subject to ASX imposed escrow for a period of up to 24 months following quotation. The number of Shares that are escrowed may be reduced under the ASX cash-formula rule.</p> <p>In addition to ASX mandatory imposed escrow, the Company has entered into voluntary escrow deeds with certain Existing Shareholders for a period of 24 months following Listing. This means that all of the Existing Shareholder's Shares will be subject to either ASX mandatory escrow or voluntary escrow.</p> <p>Some of the Noteholders have also agreed to a voluntary escrow period of the greater of:</p> <ul style="list-style-type: none"> – any restriction period imposed under law (such as any ASX imposed escrow period); and – 12 months from Listing (the Noteholders have agreed to sign a restriction agreement for a period of 12 months from Listing). <p>Following Completion of the Offer, the following restrictions will apply to Shares:</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th></th> <th style="text-align: right;">Minimum Subscription</th> <th style="text-align: right;">Maximum Subscription</th> </tr> </thead> <tbody> <tr> <td>Total % mandatorily escrowed under the ASX Listing Rules (Existing Shareholders and Noteholders)</td> <td style="text-align: right;">46.89%</td> <td style="text-align: right;">43.37%</td> </tr> <tr> <td>Total % voluntarily escrowed (Existing Shareholders and Noteholders)</td> <td style="text-align: right;">19.57%</td> <td style="text-align: right;">18.11%</td> </tr> </tbody> </table> <p>Note: the above calculations assumes that no Options or Performance Options have been exercised.</p>		Minimum Subscription	Maximum Subscription	Total % mandatorily escrowed under the ASX Listing Rules (Existing Shareholders and Noteholders)	46.89%	43.37%	Total % voluntarily escrowed (Existing Shareholders and Noteholders)	19.57%	18.11%	Section 7.15
	Minimum Subscription	Maximum Subscription									
Total % mandatorily escrowed under the ASX Listing Rules (Existing Shareholders and Noteholders)	46.89%	43.37%									
Total % voluntarily escrowed (Existing Shareholders and Noteholders)	19.57%	18.11%									

1.7 Overview of the Offer

What is the Offer?	<p>This Prospectus provides investors with the opportunity to participate in the IPO of 25,000,000 Shares (and up to 32,500,000 Shares) at \$0.20 per Share to raise \$5 million with the capacity to raise up to \$6.5 million (Offer).</p> <p>The Shares offered under this Prospectus will rank equally with the existing Shares on issue.</p> <p>On Completion of the Offer, the Company will also issue:</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Recipient</th> <th style="text-align: right;">Minimum Subscription</th> <th style="text-align: right;">Maximum Subscription</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;">Existing Shareholders</td> <td style="text-align: right;">55,500,041 Shares 4,000,000 Options</td> <td style="text-align: right;">55,500,041 Shares 4,000,000 Options</td> </tr> <tr> <td style="vertical-align: top;">Noteholders</td> <td style="text-align: right;">11,999,959 Shares</td> <td style="text-align: right;">11,999,959 Shares</td> </tr> <tr> <td style="vertical-align: top;">Lead Manager</td> <td style="text-align: right;">5,227,541 Options</td> <td style="text-align: right;">5,602,541 Options</td> </tr> <tr> <td style="vertical-align: top;">Non-executive directors, Advisory Board members, key management and others under the Share Option Plan</td> <td style="text-align: right;">8,805,864 Options</td> <td style="text-align: right;">8,805,864 Options</td> </tr> <tr> <td style="vertical-align: top;">Executive Directors</td> <td style="text-align: right;">15,000,000 Performance Options</td> <td style="text-align: right;">15,000,000 Performance Options</td> </tr> </tbody> </table>	Recipient	Minimum Subscription	Maximum Subscription	Existing Shareholders	55,500,041 Shares 4,000,000 Options	55,500,041 Shares 4,000,000 Options	Noteholders	11,999,959 Shares	11,999,959 Shares	Lead Manager	5,227,541 Options	5,602,541 Options	Non-executive directors, Advisory Board members, key management and others under the Share Option Plan	8,805,864 Options	8,805,864 Options	Executive Directors	15,000,000 Performance Options	15,000,000 Performance Options	Sections 7 and Section 10
Recipient	Minimum Subscription	Maximum Subscription																		
Existing Shareholders	55,500,041 Shares 4,000,000 Options	55,500,041 Shares 4,000,000 Options																		
Noteholders	11,999,959 Shares	11,999,959 Shares																		
Lead Manager	5,227,541 Options	5,602,541 Options																		
Non-executive directors, Advisory Board members, key management and others under the Share Option Plan	8,805,864 Options	8,805,864 Options																		
Executive Directors	15,000,000 Performance Options	15,000,000 Performance Options																		
Who is the issuer of the Prospectus?	The issuer of the Prospectus is Security Matters Limited (ACN 626 192 998).																			

1. Investment Overview

1.7 Overview of the Offer *continued*

Topic	Summary	Further information
What is the purpose of the Offer?	<p>The purpose of the Offer is to:</p> <ul style="list-style-type: none">– facilitate the Company’s application for admission to the Official List of the ASX;– raise no less than \$5 million (before deduction of costs) with the capacity to accept up to \$6.5 million (before deduction of costs) pursuant to the Offer; and– provide a liquid market for Shares and an opportunity for new Shareholders to invest in the Company.	Section 7.2
How will the proceeds of the Offer be used?	<p>The proposed use of funds raised from the Offer include:</p> <ul style="list-style-type: none">– provide the ability to service multinational companies;– provide funds for sales and marketing operations, including the recruitment of a CMO;– funding of the Company’s business operations, to serve current and future customers;– provide funds for continuing of development and commercialisation of the Source IP and the Company’s technology;– meeting the ongoing administrative costs of the Company and provide working capital; and– fund the expenses of the Offer and the associated costs of listing the Company on ASX.	Section 7.3
What is the Offer Price?	The Offer Price is \$0.20 per Share.	Section 7.12
Is the Offer underwritten?	The Offer is not underwritten.	Section 7.12
Will the Shares be quoted?	<p>The Company intends to apply to the Official List of the ASX for quotation of Shares on ASX under the code “SMX”.</p> <p>Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.</p> <p>The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.</p>	Section 7.12
Will the Options be quoted?	The Company does not intend to apply for quotation of the Options.	
What is the allocation policy?	The allocation of Shares under the Offer will be determined by agreement between the Company and the Lead Manager.	Section 7.12
Will the Company accept over-subscriptions?	The Company does not intend to accept over subscriptions above the Maximum Subscription.	Section 7.12
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.	Section 7.12
What are the tax implications of investing in the Shares?	Section 10.21 provides a general summary of the potential Australian tax implications of participating in the Offer. However, the tax consequences of participation will depend on the individual investor’s circumstances and, as such, Applicants should obtain their own tax advice before subscribing for Shares pursuant to the Offer.	Section 10.21

1. Investment Overview

1.7 Overview of the Offer *continued*

Topic	Summary	Further information
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be mailed by standard post as soon as possible after the close of the Offer on or about 7 September 2018.	Key Offer Details, Section 7.12
What is the minimum Application size?	<p>The minimum Application size for investors under the Offer is \$2,000, being an Application for 10,000 Shares, then in multiples of \$500.</p> <p>There is no maximum value of Shares that may be applied for under the Offer.</p> <p>The Lead Manager and the Company reserve the right to reject any application made under the Offer or to allocate a lesser number of Shares than that applied for. In addition, the Company and the Lead Manager reserve the right to aggregate any applications which they believe may be multiple applications from the same person or reject and scale back any Applications.</p>	
How can I apply?	Applications for Shares under the Offer may only be made on an Application Form attached to or accompanying this Prospectus, or via the relevant electronic Application Form attached to the electronic version of this Prospectus, available at https://www.securitymattersltd.com/ .	
When are the Shares expected to commence trading?	<p>Please refer to the indicative timetable in the Key Offer Details section for the key dates of the Offer.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading in Shares.</p> <p>Applicants who sell Shares before they receive an initial statement of holding do so at their own risk.</p> <p>The Company, the Share Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, even if such person received confirmation of allocation from the Share Registry, by a Broker or otherwise.</p>	Key Offer Details
Can the Offer be withdrawn?	<p>Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable.</p> <p>The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.</p>	Section 7.16
Where can I find out more information about this Prospectus or the Offer?	<p>You can obtain further information from:</p> <ul style="list-style-type: none">– your accountant, solicitor, stockbroker or other independent professional financial adviser;– from the Company's share registry, Boardroom Pty Limited on 1300 737 760 (within Australia) or +61 9290 9600 (outside Australia);– from the Company by contacting the Company Secretary, Mark Licciardo on +61 3 8689 9997 or at markl@mertons.com.au; or– from the Lead Manager RM Corporate Finance, Nathan Barbarich, Head of Corporate Finance on +61 8 6380 9200 or nbarbarich@rmcf.com.au	N/A

2. Industry Overview

2.1 Counterfeit market overview

In 2013, an OECD study noted that global trade (excluding online piracy) in counterfeit goods is worth approximately \$461 billion each year. As at 2016, it was estimated that counterfeit goods are worth 2.5% of global imports.

Factors that drive counterfeit trade include a number of demand and supply drivers:

a) Demand

The demand for counterfeit products is driven by factors relating to:

- the attributes of the authentic product (for example its current market value compared to its intrinsic value and perceived quality);
- an individual consumer's characteristics (for example, a consumer's general economic situation, or any concerns relating to the purchase and consumption of counterfeit and pirated goods that he or she may have); and
- the institutional environment in which the consumer operates (for example, the risk of being exposed in jurisdictions where penalties for counterfeit goods exists, or the availability and ease of acquisition of counterfeit products).

b) Supply

The supply of counterfeit products is driven by factors relating to:

- profit margins relating to the manufacture and sale of counterfeit goods;
- technological and distribution challenges associated with manufacturing counterfeit goods; and
- the legal and practical risk of producing counterfeit products.

2.2 Risks associated with counterfeit market

Trading in counterfeit goods can lead to the following outcomes:

- **Increase in danger:** Counterfeit goods are often made using cheap, sub-standard and dangerous components that put the health and safety of consumers at risk.
- **Increase in theft and fraud:** Purchasing from counterfeit websites puts you at risk for identity theft and credit card fraud when you provide a counterfeit merchant with your information.
- **Illegal activity:** Counterfeiting is inherently illegal and purchasing counterfeit products supports illegal activity.
- **Social cost for citizens:** Counterfeit manufacturers do not always pay taxes, which is a public and social cost that is borne by other citizens. The lost sales and profits that result from unfair competition may translate directly into lower wages and lost jobs, as well as higher market prices for the authentic products for consumers.
- **Potential exploitation of human capital:** In some cases, counterfeit manufacturers do not pay their employees fair wages or benefits, have poor working conditions and sometimes use forced or child labour.
- **Potential and implicit support for organised crime:** The profits from sales of counterfeit goods have been linked to funding organised crime, drug trafficking and even terrorist activity.

2.3 Supply chain integrity

The production and manufacture of certain products can require several suppliers located in different areas of the world. Changes within the supply chain can bring economic efficiencies for the manufacturer, but it also requires the manufacturer to trust the parties during the transport and logistics phases as well as the production and manufacture phases of the supply chain.

These companies use various technologies to track goods through a supply chain. For example, companies have implemented a common barcode system, RFID tags and/or QR code technology. Even though these solutions are usually easy to counterfeit, they provide a low cost solution for supply chain integrity.

In 2015, the revenue generated from the RFID market was over US\$10 billion.

A manufacturer using raw materials or integrating products of others in its manufacturing process will need to ensure that the raw materials or integrated products are authentic, as non-authentic raw materials will affect the quality of its own products and its brand accountability.

2.4 Quality assurance and brand accountability

A manufacturer using raw materials will need to ensure, as part of its quality assurance process that the correct raw materials or integrated products are used and the correct quantity is used.

If the raw materials are 'tagged', 'coded' or 'marked', this marker can assist with the determination of the authenticity of the final product and thus assure its quality throughout the supply chain process.

2.5 Methods used in anti-counterfeit market

With the rise of counterfeit products, there has been a rise in the methods and technologies used to combat counterfeit markets. These methods can be separated into two categories (Authentication and Track and Trace) and several method families such as Overt, Covert, Forensic and Track and Trace.

2. Industry Overview

2.6 Authentication technologies

a) Overt features

Overt features are typically visible features on a product, which allows end-users to authenticate a particular product. Overt features require a high level of security in the supply chain to prevent unapproved diversion from the supply chain.

b) Covert features

Covert features are mainly beneficial to manufacturers and brand owners, who can verify the authenticity of a product. Usually, the general public are not as concerned for covert features as the authentication feature is hidden or is harder to detect. Covert features are normally harder to copy, let alone detect.

c) Forensic techniques

Forensic techniques can be considered a subset of covert features, however forensic techniques require the use of field test kits to scientifically prove the authenticity of an item. The scientific methodology behind forensic techniques are usually patent protected, making them expensive and limiting their scalability.

d) Track and trace technologies

Track and trace technology is the highest revenue generating technology sector for anti-counterfeit technologies.

Track and trace includes technologies, such as barcodes, QR codes, RFID tags and NFC technology.

Track and trace technologies are typically used in a variety of different industries, including the packaging industry, and are adopted during the manufacturing process of the product.

Table 1: Types of anti-counterfeiting methods

Categories	Examples	Advantages	Disadvantages
Overt	<ul style="list-style-type: none">– Holograms– Color shifting ink– Security graphics– Optic detection	<ul style="list-style-type: none">– End users can verify features– Features are a deterrent	<ul style="list-style-type: none">– Can be easily copied– Users need to be educated– May lead to a false negative
Covert	<ul style="list-style-type: none">– Invisible print– Embedded image– Digital water marks– UV Ink	<ul style="list-style-type: none">– Features can be cheap to implement– Features do not require approval of authorities	<ul style="list-style-type: none">– Features need to be secret to be effective– Compromised if shared with suppliers– Cheaper features are less of a deterrent
Forensics	<ul style="list-style-type: none">– Chemical taggants– DNA micro markers– Silica based solutions	<ul style="list-style-type: none">– High-tech based features– Features are usually can be easily added or modified effortlessly	<ul style="list-style-type: none">– Few possible “codes”– Usually high cost for marking– Usually requires lab for detection
Track and Trace	<ul style="list-style-type: none">– RFID– NFC– Serialization– Bar/QR-Codes	<ul style="list-style-type: none">– Additional benefits in supply chain management– Remote authentication possible	<ul style="list-style-type: none">– Can be removed or cut out– High cost to implement (Eg: RFID)– Standards differ across markets– Data privacy issues

2. Industry Overview

2.7 Market size of authentication technology

The global spend by governments and corporate combating counterfeit is expected to reach US\$284 billion by 2020. The worldwide market for authentication technology is a major share of such expenditure. Of the total market for authentication technology, the worldwide market for security printing by way of barcodes, holograms and special inks is expected to grow from US\$20.5 billion in 2010 to US\$36.6 billion by 2020.

The market is expected to grow by a Compound Annual Growth Rate (CAGR) of approximately 5.9% during the period from 2015 to 2020.

2.8 Market size of track and trace technology

In 2015, the marketplace for passive and active RFID tags was approximately US\$10.1 billion.

The market for RFID tags is the fastest growing market and is expected to grow at a CAGR of 16%.

The greatest industry that is affected by RFID tags is the pharmaceuticals and healthcare industry, which is projected to be the fastest-growing end-use sector in the next five years. This industry is impacted the greatest, mainly due to regulation requiring complete transparency as to the source of every drug sold in the US.

2.9 Industry Sectors

a) Plastics and packaging

The global anti-counterfeit packaging market is the largest market for anti-counterfeit technologies. The market size is expected to grow from US\$82 billion in 2015 to between approximately US\$143 billion to US\$153 billion by 2020, at a CAGR of 13%.

The industries in which packaging is a major concern are:

- pharmaceuticals (US\$39.7 billion);
- food and beverage (US\$27 billion);
- electronics (US\$14 billion); and
- clothing and accessories (US\$12 billion).

Top counterfeit goods in the black market ranked by losses and economic impact include:

- counterfeit drugs: US\$200 billion
- counterfeit electronics: US\$169 billion
- software piracy: US\$63 billion
- counterfeit foods: US\$49 billion
- counterfeit auto-motive parts: US\$45 billion.

A new generation of integrated solutions will enable brands to simultaneously track, trace and authenticate products across global distribution chains.

The prevalence of smartphones and falling costs of RFID functionality is set to make product authentication and verification in the packaging industry more accessible in the marketplace.

b) Precious metals and stones

Precious metals (gold, diamonds etc.) and the valuable minerals market are naturally subject to counterfeit risk. There are other social impact issues such as illegal mines, conflict minerals and blood diamonds. For example, it is commonly understood that untraceable 'conflict minerals' from the Democratic Republic of Congo have found their way into the international supply chain.

Consumers want to guarantee that they are purchasing conflict-free minerals and stones from an ethical source. The Company's technology can be part of that solution.

3. Business / Company Overview

3.1 Background

Security Matters Israel was established to provide brand protection and supply chain integrity solutions to businesses. The Company provides these solutions through the commercialisation of the initial technology of tracking and tracing materials by observing and identifying Markers (**Source IP**). The Source IP initiated from the Soreq Nuclear Research Center (**Soreq**), an Israeli Government research and development institute for nuclear and photonic technologies under the Israeli Atomic Energy Commission. The Source IP comprises the non-public information, know-how, data methods, processes, techniques and results relating to US Patent 8158432 B2 titled “Method and system for marking and determining the authenticity of liquid hydrocarbons”.

In January 2015, Security Matters Israel entered into the Isorad Licence Agreement to license the Source IP and commercialise and develop the technology further. Under the Isorad Licence Agreement (as amended in July 2018), the Source IP can be utilised in any industry and with any product, with the exception of a small number of industries listed in the Isorad Licence Agreement.

Since entering into the Isorad Licence Agreement, Security Matters Israel has filed 12 Patent Applications (three independently and nine together with Soreq), of which some have not yet been published, which are more specifically set out in Section 9 (**New IP**). Please also refer to Section 10.3 for more details on the licence agreement.

The Company believes that there is a real market need for a product authentication, supply chain integrity, brand accountability and quality assurance technology used in authentication and track and trace processes that cannot be removed.

Since Security Matters Israel’s incorporation, an aggregate amount of US\$4.45 million has been invested in Security Matters Israel by several investors under a number of different investment rounds. An additional \$1.68 million was recently raised in May and June 2018 from the Noteholders.

3.2 Overview of the Business

The Company believes it is the next generation for brand protection, authentication and track and trace technology for the anti-counterfeit market. The Company provides one solution to solve both authentication and track and trace challenges in order to uphold supply chain integrity and provide quality assurance and brand accountability to producers of goods.

The Company’s technology works as a track and trace system using a Marker, a unique Reader and a unique algorithm to identify embedded sub-molecular particles in order to track and trace different components along a production process (or any other marked good along a supply chain) all the way to the end product.

Each identification of a Marker is to be stored, either locally on the reader or on private servers, cloud servers or on a blockchain record to store and protect data ownership.

3.3 How does Security Matters mark products and materials?

The Company uses various building blocks to mark materials and products. The building blocks of the Marker are chosen from a variety of different molecules. For each project, the Company’s team selects a combination of molecules based on the specification of the customer and marked material (for example, the marked medium, the production process, the end use of the product, regulatory requirements etc). The Company’s unique Reader (described in further detail below) can identify the Marker and identify a response at a sub molecular building block level, making the Marker identification highly accurate.

The ability to accurately identify the concentration level of a Marker allows the Company to use numerous markings from a variety of different molecules. This enables the Company to not only identify the Marker, but also identify the concentration within a product within a pre-defined range and “read” whether the marked material was diluted (authenticating not only the marked goods but also identifying the quantity).

Based on the specifications of the marked product, the Company can mark materials based on several techniques, including during the production process by:

- Creating a Marker “concentrate” that will later be introduced in the regular product production process, as additional “additive”; and/or
- Inserting the Marker’s formulation directly at the production line and embedding it in the product.

3. Business / Company Overview

3.3 How does Security Matters mark products and materials? *continued*

Markers can denote unique meanings for each product, batch and geography, resulting in complete identification. These may describe origins of manufacture, product provenance and date of production to the end customer.

Markers that are currently operational are regularly tested by the Company and new materials are being explored.

Intellectual Property: Sub-Molecular Codes & Unique Detection

Marker properties

- ✓ Capability to mark **Liquids** or **Solids** infrastructures
- ✓ Capability to mark **IN** or **ON** product
- ✓ Capability to mark **During** or **Post** production
- ✓ Capability to use **Very Low Concentration** of markers, without affecting the product properties
- ✓ Capability to have **Visible** or **Invisible** markers
- ✓ Capability to have **Durable Markers**
- ✓ Capability to have **Numerous Codes**
- ✓ Only detectable by **Unique Reader**
- ✓ Capability to **Read Through** packaging

Reader properties

- ✓ Non-destructive Test (NDT)
- ✓ Client readers are **personalized** so that only they can authenticate company products
- ✓ Detection is a transmitter/receiver complex in a **unique configuration** and in an entirely unique wavelength
- ✓ Energy is complex enough to make **miniscule changes** to marker and to detect them in a very precise way
- ✓ **Patented algorithm** added to process that "cleans" the results from the background



Security Matters, Ltd.



3.4 What is a Reader?

A Reader is a patented wavelength spectral profiling system that 'reads' Markers by detection of energy from the "read" object in response to an energy-ray applied to it.

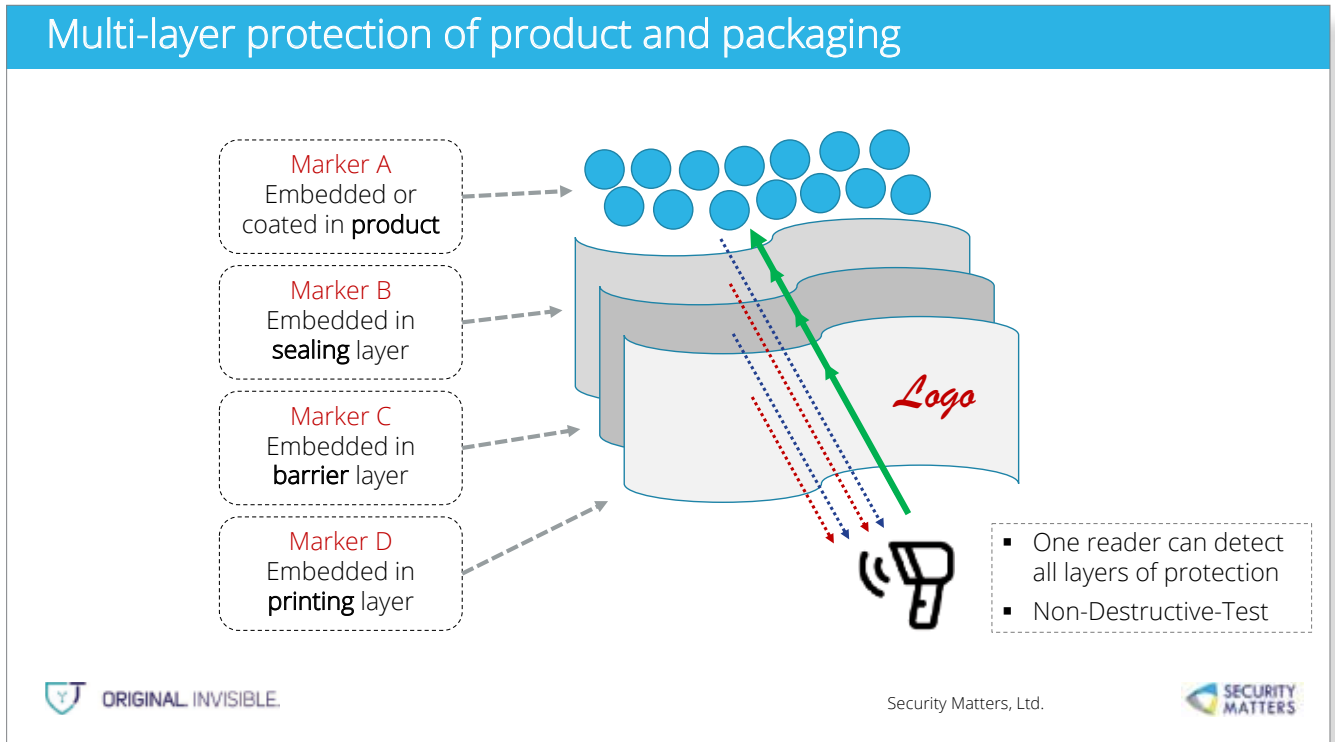
The Company is currently utilising a generic x-ray wave reader that is altered according to the Company's specifications to convert it to a Reader. These changes made by the Company to the reader and the Company's algorithm make the Company's detection method a unique method. The Company is working on the development of the Security Matters Reader for mass-market use. See Section 3.12(a) for further information on the development of the Security Matters Reader.

3. Business / Company Overview

3.5 What is a Marker?

Markers are embedded sub-molecular particles applied to any raw material (e.g. solids, liquids or gases).

Markers are embedded in the material and can only be read by designated Readers. A Reader scans for the existence of Markers. If the reading satisfies a pre-determined condition set by the Company (which can be programmed), the reader identifies the marked product and can convey information about it.



3.6 Blockchain Technology

A 'blockchain' is a continuously growing list of records (or blocks), which are linked and secured using cryptography. The Company can record a Marker manifestation on the blockchain and stores this information in 'cloud storage'. Blockchain is becoming software as a service (SaaS), supplied by the leading IT companies globally.

The Company developed an algorithm to securely connect its Reader to an existing platform (licenced from a SaaS provider) and record changing ownership and other information to the blockchain automatically by the Reader, alongside a unique architecture for recording to the blockchain. The development of the Company's blockchain solution is at a beta stage. Please see Section 3.12(c) for further information regarding the Company blockchain solution.

Once the Company's blockchain solution is implemented, every time a marked good or material is scanned in order to identify the Marker, the results can be verified on the blockchain in order to confirm the data embedded in it, such as the identity of the producer, date of production, supplier and past owners. During the same scan, the Reader will be programmed to record to the blockchain a change of location or ownership of the marked product or material.

3. Business / Company Overview

3.7 Main Industry Sectors of Activity

The Company has identified several markets in which to concentrate its research, development and commercialisation efforts.

These markets are as follows:

- Plastics, including plastic packaging;
- precious metals and stones (gold, diamonds and other minerals);
- electronics; and
- raw materials.

a) Plastics and packaging

In January 2016, Security Matters Israel entered into an exclusive research and development agreement with Kafrit Industries (1993) Ltd, (an Israeli publicly traded producer of customised Masterbatches and compounds for the plastics industry) (**Kafrit**) for the incorporation of the Security Matters Israel technology into Kafrit's Masterbatch products.

In July 2017, Kafrit acquired shares in Security Matters Israel and, in parallel entered into a commercial collaboration agreement for the distribution of a marking solution used in the Masterbatch or compounds used in the plastics industry.

The parties agreed on a research and development plan, co-branding of a developed solution and a revenue-sharing model for the commercialisation of any developed solution. The parties agreed that each party will retain and hold exclusive right, title and interest in its own background intellectual property as well as any foreground intellectual property pertaining to its field of expertise (the Company in the Marking, reading and cloud systems fields and Kafrit in Masterbatch development and production).

Kafrit and the Company will share revenues from sales to joint customers where the Company's and Kafrit's technology is in use, while each side will be responsible for its own costs.

The relationship first generated revenues for the Company in 2017. Since then, the Company has obtained several small scale customers through the partnership with Kafrit.

Kafrit invests resources in the Company's solution, including Kafrit's sales force (which is over 60 sales and marketing personnel worldwide) that promotes the Company's solution to its customers and other plastics manufacturers. Kafrit has indicated that the selling of the Marker solution is a top priority for its personnel and has become part of Kafrit's target sales plans and KPIs.

Under this agreement, a party's total cumulative liability to the other is limited to the higher of US\$1 million or the party's revenues actually received from joint clients, other than in respect of a breach of confidentiality. This limitation also applies to a breach of intellectual property of third parties or damage in case of breach of exclusivity.

Please refer to Section 10.3 for more detail on this agreement.

b) Precious metals and stones

The Company intends to create a solution for the track and trace of precious metals from the mine to the end consumer or user. This solution can provide authentication to assist in the reduction of 'conflict minerals' in the market as set out in Section 2.12(b).

A letter of intent (**LOI**) was executed on 20 January 2018, between Company and Crossworks Manufacturing Ltd. contemplating the incorporation of a jointly and equally held subsidiary to commercialize the Security Matters IP portfolio to test diamonds and other precious stones to determine point origin and to commercialize the product in the diamond industry.

The LOI contemplates conducting a proof of concept and accuracy period as well as other certain preconditions required as a condition to closing the transaction, upon satisfaction of which an initial investment will be made by the Crossworks group of up to USD 550,000 (USD 250,000 of which as a loan) and then further investment by both Parties. Until such time as an agreement is signed and the preconditions have been satisfied, the LOI is not binding on the parties. Each of the parties bear their own human resources costs which are registered as a loan to the joint company.

Under the contemplated transaction Security Matters will transfer its ownership of Patent Group Number 6 (Method for marking and authenticating precious stones) into the new subsidiary and grants it a royalty-free, exclusive, license to use, exploit and commercialize the Security Matters intellectual property for the diamond and precious stones industry only. The subsidiary grants a worldwide, irrevocable, perpetual, royalty-free license to Security Matters on all intellectual property thereof (except data specific to the diamond and precious stone industry). If the subsidiary does not meet set milestones within three years, Security Matters may terminate the intellectual property transfer and license and give a non-exclusive license to the subsidiary, and subject to repayment of the shareholder loans given to the subsidiary by the Crossworks group, may obtain full ownership of the subsidiary.

In May 2018, Security Matters Israel entered into a memorandum of understanding with The Perth Mint for the mutual development of a marking and reading solution for the gold mining and refining sector incorporating the Company's technology. The next stage in the process is for parties to enter into a binding agreement.

c) Electronics

The Company has identified that it has technological advantages that are of value to manufacturers in the electronics industry. Accordingly, the Company intends to allocate resources to further commercialise its technology for the provision of solutions to the electronics market.

3. Business / Company Overview

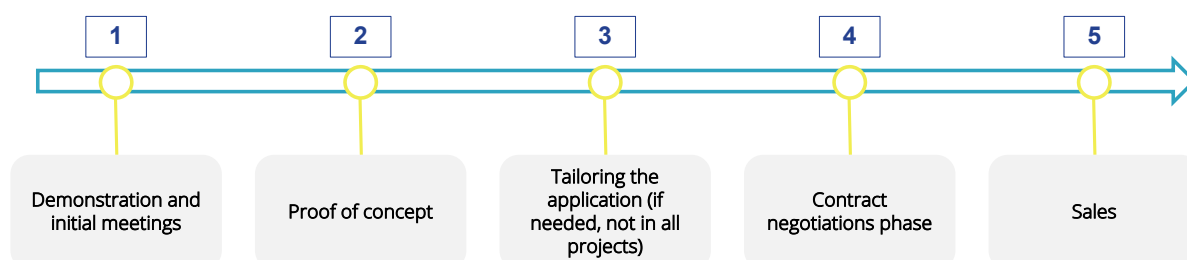
3.7 Main Industry Sectors of Activity *continued*

d) Raw materials

Security Matters Israel is informally engaged in the examination of several applications with the Performance Chemicals division of BASF, a leading chemical company with more than 115,000 employees globally. The Performance Chemicals Division is one out of 13 Divisions of BASF, producing customized products for many sectors, from mining and the fuel industry to plastics processing. The innovation team of BASF's Performance Chemicals division is evaluating different use cases in which Security Matters' technology could bring value to BASF and the parties are currently investigating these use cases to choose the first proof-of-concept.

There is no guarantee the Company will enter into binding agreements with Crossworks, The Perth Mint and BASF. Please see Section 1.3 and Section 5 for the key risks associated with the Company's commercial arrangements.

Development stages for customers of Security Matters



Security Matters, Ltd.



3.8 Strategy

The Company has a clear roadmap for entry into the markets it has identified below. The roadmap consists of three main stages:

- **Market leader adoption** – Adoption of the solution by a market leader that provides a “seal of approval” that the technology is valid for the industry and generates added value. The Company estimates that the time frame for this stage is two to three years from the point of entrance to the industry.
- **Becoming an industry standard** – Leverage the market leader's position in the market to increase adoption by other companies along the value chain.
- **Regulator adoption** – In the future, the Company aims to become the preferred solution by regulators and professional associations in each industry.

3.9 Business Model

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

The Company has two main features of its business model:

- The Company as a Business to Business company; and
- The Company as a ‘white label’ solution.

The Company may work directly with the manufacturer of the products or through the manufacturer's raw material supplier, so that the manufacturer is not required to change (or is required to make no more than minimal changes to) its manufacturing process in order to implement the Security Matters technology in the production process.

Gaining the trust of raw material producers is the first stage, which in turn allows for credibility and trust when supplying solutions to brand owners, manufacturers and suppliers, which is a key step in the continual success of the Company.

Pricing is based on the value attribution for the customers and would generally include three stages to the pricing model (which aligns with the three business activities described below):

- set up fee (for initial consultations);
- Marker implementation fee (on a per item or per kg basis) and sale or lease of Readers; and
- service fee (for reading and blockchain services and support).

3. Business / Company Overview

3.10 Business activities conducted

The Company provides a turnkey solution for the tracking and tracing of products through production processes for its customers. The solution has three phases:

a) Initial Consultations

The Company adapts solutions on a case-by-case basis in order to satisfy an individual customer's specifications (i.e. specific materials used for the Marker, the number of Markers used in the production process, the manner in which a Marker is included in the production cycle, the appropriate Reader specifications and the specific software to be used for the track and trace system to be implemented).

The consultation process provides information on the suitability of incorporation of the technology into the customer's particular product, as well as the customer's requirements and limitations. This requires both technical validation of the Company's technology and its application to the customer's business and commercial validation of the customer's investment in the Company's technology.

b) Marker Implementation and Sale or Lease of Readers

The Company implements each Marker using the method specified to the customer during the initial consultation period. Some products may require the marker be embedded in the raw materials while others require a topical solution to be used.

The Company will also setup the software solution (whether as on premises solution, cloud or blockchain solution) for the customer so that, any reading of a Marker is stored on the required software, which can be used for support purposes.

The Company will also sell or lease the Readers to the customer.

c) Ongoing Support Services

The Company will provide Reader technology to the customer and, in some cases, technical training with regards to how to use a Reader and how to provide a Marker to the customer's raw materials.

Following the implementation of each Marker and the provision of the associated Readers required for the customer, The Company will provide complete support services for the track and trace technology at the customer's designated locations.

Finally, the Company will maintain the integrity of the software solution on behalf of the customer.

3.11 Key Competitors

The competitors within the global anti-counterfeit market can be separated under authentication technologies (see Section 2.6) and track and trace technologies (see Section 2.8).

There are a number of technologies in the market in competition with the Company. For example, within the RFID technology space, there are over 1,000 companies globally.

The Board is of the view that the Company's solution is superior to current solutions in the market as it has several combined features that cannot all be found together in other technologies – one solution for several brand needs. The main advantages the Company, has as opposed to its competitors mean that there is no direct competition to the Company within the following features:

- Multi-layer solution – the ability to mark the product in several locations/materials, as well as several packaging layers with one technology;
- Numerous codes – large number of codes created by the Marker;
- Durable and undetectable Markers;
- Ability to mark solid, liquid and gas;
- Cost effective solution; and
- Does not interfere with product properties.

Advantages over Competing Technologies

Marker Comparison

	Mark Liquids	Mark Solids	Mark Gas	In and On product	Low concentration	Visible and invisible	Durability of markers	Numerous codes	Detectable by unique reader	Can read through packaging
Security Matters	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chemical Technology	?	✓	✗	✓	✓	?	?	✗	✓	✗
Optical Technology	?	?	✗	✗	✗	✗	?	✓	✓	?
Tag Technology	✗	✓	✗	✗	✗	✓	✓	✓	✓	?

Identification method Comparison

	Non Destructive Test	Personalized readers	Immediate detection on site	Detect miniscule differences	Patented algorithm	App based detection	Read through media	No limit of codes
Security Matters	✓	✓	✓	✓	✓	✗	✓	✓
Chemical Technology	✓	?	✓	✗	✓	?	✗	✗
Optical Technology	✓	✓	✓	✗	✓	✓	✗	✓
Tag Technology	✗	✓	✓	✓	✗	✗	?	✓

Chemical Technology	<ul style="list-style-type: none"> • Chemical taggants, fluorescence • DNA micro markers 	Optical Technology	<ul style="list-style-type: none"> • Holograms • Security graphics • Optic detection 	Tag Technology	<ul style="list-style-type: none"> • NFC & RFID • QR code
---------------------	--	--------------------	---	----------------	---

3. Business / Company Overview

3.12 Key Drivers to Commercialisation

The Company is able to service initial customers at this stage and therefore one of the main drivers for commercialisation is the strengthening of the business development function and its sales force. Funds will be allocated to recruit business development managers that aim to accelerate market adoption. The Company aims to recruit an experienced CMO with experience in the relevant markets in which the Company operates (electronics, precious metals and plastics).

The business development efforts within the Australian market will be led by John Poynton AO of Jindalee Partners. The business development efforts outside of the Australian market will be led by two Company directors, David Rosenblatt and Dr Gregory Clark.

There are certain material projects for the Company to complete for it to be able to serve a wide number of customers over a variety of industries.

One of the main goals of this Offer is to enable the Company to raise funds for the following development (in anticipation for commercialisation of its products):

a) Reader technology

Currently, the Company utilises a generic reader of x-ray waves, adapted to suit its needs. The changes to the reader are done at the Company's physics laboratory to adapt the devices to the Company's applications. These changes made by the Company to the Reader and its algorithm make the Company's detection method unique.

The Company intends to develop, design and produce the Security Matters Reader for applications across a number of different industries. It will undertake the modelling and unique design and own the intellectual property relating to the Security Matters Reader, while outsourcing the production of the Security Matters Reader to electronics manufacturers.

The Company's unique software will be embedded within the Security Matters Reader and, along with an optimised ergonomic design, the Security Matters Reader is expected to be low-cost for the provision of reading Markers.

Dr Yair Grof will head the Security Matters Reader development. Dr Yair Grof has already led similar projects to produce similar Readers for other applications.

The key benefits of the Security Matters Reader compared to other Readers will be:

- Highly accurate detection abilities of Markers;
- New ergonomic design to reduce cost of production; and
- Dedicated Readers for customers' needs.

b) Marker development

The Company has already identified numerous materials and compositions that are suitable as Markers and the Company is already using these materials as Markers for its current customers. The Company will seek to undertake further research and development in order to develop a greater variety of Markers that can be applied across a number of different industries and sectors.

Pursuant to the Company's strategy outlined above, the Company intends to prioritise the development of Markers for the plastics (including packaging), electronics and precious metals industries.

Dr Michal Firstenberg is the head of the Company's Marker development programme. Dr Michal Firstenberg is assisted by Company engineers and the project is overseen by Dr Yifat Bareket. The Marker development program will be largely conducted in-house with the assistance of external consultants as required.

c) Blockchain solution

The Company has developed a blockchain architecture and algorithm that is in its early stage of development and requires further financing to develop it into a fully operational blockchain solution for the storage and recall of Marker readings.

3.13 Growth and Expansion

The Company intends to grow its business via partnering with market leaders and becoming a new industry standard in a variety of industries. Outlined below are different sectors on which the Company is currently exploring and the relationships the Company has established within each sector. The Company will use these relationships with market leaders as a base to expand its presence within each sector.

a) Plastics products and packaging

As set out in Section 3.7(a), the Company is in a strategic partnership with Kafrit Group, a worldwide expert in plastic additives and Masterbatches. See Section 10.7 for further information relating to the Company's strategic partnership with Kafrit Group.

b) Electronics

The Company has identified that it has technological advantages that are of value to manufacturers in the electronics industry. Accordingly, the Company intends to allocate resources to further commercialise its technology for the provision of solutions to the electronics market.

c) Precious metals and stones

As set out at Section 3.7(b), the Company has entered into:

- a non-binding letter of intent with Crossworks, a company active in the marketing, distribution and manufacturing of diamonds. See Section 10.10 for further information about the Company's relationship with Crossworks; and
- a memorandum of understanding with The Perth Mint. See Section 10.11 for further information about the Company's relationship with The Perth Mint.

d) Raw materials

As set out in Section 3.7(d), the Company is informally engaged with BASF, a leading chemical company with more than 115,000 employees globally. See Section 10.09 for further information about the Company's relationship with BASF.

3. Business / Company Overview

3.13 Growth and Expansion *continued*

e) Agriculture

The Company is active in several agricultural fields: seeds, livestock, eggs, crops and has strong relationships within the agricultural space due to extensive shareholders' experience in this industry, as well as Israel's current position in agriculture technology.

Plastic pollution of farmland is a global problem with studies showing that there are between 100,000 metric tons and 700,000 metric tons of microplastic added annually to farmlands in North America and Europe alone. This pollution affects water supplies, crops, produce and the environment more generally.

The Company has developed a solution to identify marked plastic at a size as small as 1 square cm as part of the post-harvest process. The Company is developing a system to reduce plastic pollution for farmers and agricultural machinery companies.

3.14 Other industries

The Company has identified several other markets in which it has technological advantages, such as: food, art, paints and coatings, 3D printing and pharma.

3.15 Intellectual Property

Please refer to Patent Report at Section 9 for a detailed overview of the Company's Patent Applications.

3.16 Obligation to pay royalties to Israeli government entities

a) The Israeli R&D Law

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).

Under Israeli laws with respect to research and development (R&D Law), a royalty of between 3% to 5% applies to the net sales of products developed from a project funded by the OCS, beginning with the commencement of sales of products developed with grant funds and ending when a dollar-linked amount equal to 100% of the grant plus interest at LIBOR. The terms of the R&D Law also place restrictions on the location of the manufacturing of products developed with government grants, which, in general, must be performed in Israel, and on the transfer to third parties of technologies developed through projects in which the government participates. The Company's research and development team will remain in Israel and all funds previously received by way of a grant from OCS have been invested in Israel.

The Israel Innovation Authority (IIA) was entrusted from 2015 with granting funding under the law and the Office of the Chief Scientist (OCS) was made part of the council body of the IIA and serves as its chairperson.

The IIA has recently published a directive incorporating most of the former provisions, including those with respect to transfer of manufacturing rights, transfer of know-how and others. These provisions include limitations and requirements for payment with respect to outsourcing or transferring development or manufacturing activities with respect to any product or technology outside of Israel, and change in control in companies which received government funding from the OCS or IIA, which may impair ability to sell technology assets outside of Israel or to outsource, transfer develop or manufacture with respect to any product or technology that received government funding under the R&D Law outside of Israel, or consummate a change in control in the Company, all without prior approval of the IIA. The Company is required to report the IPO and will ensure Security Matters Israel complies with all future obligations it owes the OCS (including any payments).

In May 2017, the IIA published the Rules for Granting Authorisation for Use of Know-How Outside of Israel (**Licensing Rules**). The Licensing Rules enable the approval of licensing arrangements and other arrangements for granting of an authorisation to an entity outside of Israel to use know-how developed under research and development programs funded by the IIA. Subject to payment of a "License Fee" to the IIA, at a rate that will be determined by the IIA in accordance with the Licensing Rules, the IIA may now approve arrangements for the license of know-how outside of Israel. This allows companies that have received IIA support to commercialize know-how in a manner which was not previously available. In addition, the IIA has recently published a directive incorporating most of the former provisions, including those with respect to transfer of manufacturing rights, transfer of know-how and others.

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 under which it received ILS 547,596 in 2016 and ILS 62,269 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 obligated to pay 3% of its relevant revenues for the first three years, and 3.5% of the relevant revenues for further years, until repayment of the entire grant, being ILS 609,865 (equivalent to approximately \$225,000).

b) Approved Enterprise

The Israeli Encouragement of Capital Investments Law, 1959, is intended to encourage investment in industry in Israel in national priority areas, to promote economic initiatives while giving preference to advanced and innovative industries, and to strengthen development areas. Based on the Investment Law, the Investment Center may, on application, grant the status of "Approved Enterprise" for Capital Investments in industry and tourism. Certificates of approval are issued and such approval entitles the project to receive substantial support from the State. The support may be in the form of reduced taxation, investment grants or other benefits specifically designed to encourage capital investment in Israel. Such State support is conditional on certain restrictions on the activities of a supported company, which restrictions may not easily be alleviated.

3. Business / Company Overview

3.16 Obligation to pay royalties to Israeli government entities *continued*

In December 2016, the Company received approval as an Approved Enterprise (File 24638, Plan 429, Motion 120941) for the building of a factory for the marking of materials with an investment of ILS 3,700,000, provided that at least 24% of the investment will be financed by the issuance of new shares. If the terms of the plan are fulfilled, the Company is entitled to a government grant of 20% of its investment (65% during the building of the project and the remainder upon final approval of the project), all provided that the plan is consummated by 22 December 2018, which may be extended if by that date at least 40% of the investment of the Company was made. The approval requires reporting of any IPO. The Company has reported the Company's proposed IPO to the Investment Center.

The Company has not commenced the project yet and the Directors do not consider it to be part of its strategy at this stage.

c) Isorad Licence Agreement

Under the Isorad Licence Agreement (as amended in July 2018), the Company received from Isorad an exclusive, worldwide, royalty-bearing license, to make use of (including, without limitation, to develop, manufacture, use, market, offer for sale, sell, export and import in the field of marking methods) US patent number 8158432 B2 and the technology derived from it but excluding fuels, oil, crude oil and any other petroleum products. Additionally, any uses for the Israeli Security Forces and/or its purposes will be conducted via the Company at a "cost plus" price to be agreed. While Isorad and Soreq reserve the right to freely continue to research and develop the technology, the Company has a right of first offer to any newly developed technology. If the Source IP is developed further by Soreq and Soreq wish to commercialise the new technology, then Soreq must offer the right to commercialise the new technology to the Company in the first instance.

The Company and its affiliate are to pay Isorad royalties for 25 years as of 1 January 2020 in the amount of 2.2% of all gross sales by the Company, its affiliates or sublicensees and after 25 years the licence becomes royalty-free. Gross sales are widely defined under the Isorad Licence Agreement to include the total amount invoiced or received by the Company and/or its affiliates, including, without limitations, for sale of products and provision of services. If the Company charges a fee for sublicensing or an option for a sublicense, for which it does not pay the 2.2% royalty described above, such income will be subject to royalty payment of 15% of the amounts received. The royalties for revenues from sub-licensing the technology will be paid as of 10 July 2018. Isorad is an Existing Shareholder and will be issued Shares and Options in the Company as disclosed in this Prospectus.

Further, the Company is to pay Isorad 1% of the proceeds of the Offer. Upon the next M&A event such as a secondary offer of shares or an acquisition of the company (but also mergers, sale of all or substantially all the assets of the Company and similar event), the Company is to pay a cash amount equal to 2% of the amount received or transferred. This payment is made once (in addition to the 1% payment at IPO) and will not apply to any future offer of shares, merger or sale of assets after the next event.

Under the Isorad Agreement, Isorad (as an Israeli Government Agency) can only refuse to approve a sub-licence based on governmental defence, security, governmental policy, political and other official State of Israel policy considerations.

A sublicensee cannot further grant, directly or indirectly, to any third party any sublicense or rights to the technology and cannot further assign the sublicense agreement.

The Isorad Licence Agreement will continue in full force and effect in perpetuity unless terminated. If either party does not remedy a material breach of its obligations within 180 days of notice of the material breach, the non-defaulting party may terminate the Isorad Licence Agreement immediately. Isorad may terminate the agreement by providing 30 days prior written notice if the royalties payable to Isorad are \$nil in any semi-annual report and the Company has breached other certain obligations (such as a failure to maintain a patent or patent application in the previous semi-annual review period).

The Company provides broad indemnities to Isorad and Soreq and their related parties under the terms of the Isorad Licence Agreement.

The Isorad Licence Agreement is governed by the laws of Israel.

3.17 Safety Certifications and permits

The Company is in compliance with the requirements of the ISO 9001:2015 standard for quality management and quality assurance. The ISO organization promotes worldwide proprietary, industrial and commercial standards. The Company is examined annually to verify that it complies with the ISO standards of excellence, safety, quality, process management and risks management.

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 renewed in May 2018 and is valid until May 2019.

4. Financial Information

4.1 Introduction

This Section contains a summary of the historical financial information and pro forma historical financial information of Security Matters Ltd (Israel) (**Security Matters Israel**) and pro forma historical financial information of Security Matters Limited (**'Security Matters'** or **'the Company'**) (collectively **the Financial Information**), which has been prepared by the Directors of Security Matters.

The Historical Financial Information comprises the:

- Security Matters Israel historical consolidated Statements of Profit or Loss and Other Comprehensive Income for the financial years ended 31 December 2015 (**FY2015**), 31 December 2016 (**FY2016**) and 31 December 2017 (**FY2017**) (**Historical consolidated Statements of Profit or Loss and Other Comprehensive Income**); and
- Security Matters Israel historical Consolidated Statements of Cash Flows for FY2015, FY2016, and FY2017 (**Historical consolidated Statements of Cash Flows**).

The Pro-forma Historical Financial Information comprises the:

- Security Matters pro forma historical consolidated Statement of Financial Position as at 31 December 2017 (**Pro forma historical consolidated Statement of Financial Position**).

The Historical Financial Information for FY2015, FY2016 and FY2017 has been audited by BDO Ziv Haft (**BDO Israel**).

The Pro-forma Historical Financial Information has been reviewed by BDO Corporate Finance (East Coast) Pty Ltd (**'BDO Corporate Finance'**). BDO Corporate Finance's Investigating Accountant's Report on the Pro-forma Historical Financial Information is contained in Section 8. Investors should note the scope and limitations of that report (refer to Section 8).

Also summarised in this Section are:

Table 4.1: Overview of Financial Information

Section	Heading
4.2	Basis of preparation and presentation of the Financial Information
4.3	Historical consolidated Statements of Profit or Loss and Other Comprehensive Income
4.4	Historical consolidated Statements of Cash Flows
4.5	Pro forma historical consolidated Statement of Financial Position
4.6	Management discussion and analysis of the Financial Information
4.7	Debt facilities
4.8	Commitments and contingent liabilities
4.9	Liquidity and capital resources
4.10	Dividend policy
4.11	Significant Accounting Policies
4.12	Critical accounting estimates and judgements

The information in this Section should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

Amounts disclosed in the tables are presented in Australian dollars and rounded to the nearest thousand dollars, unless otherwise noted.

4.2 Basis of Preparation and Presentation of the Financial Information

a) Overview

The Directors of Security Matters are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Section 4 has been prepared in accordance with the recognition and measurement principles prescribed in the International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board, and the accounting policies of Security Matters. The Financial Information and accompanying commentary presented in this Section has also been disclosed with consideration to regulatory guidance issued by ASIC.

The Financial Information is presented in an abbreviated form insofar as it does not include all the presentation and disclosures, statements or comparative information as required by IFRS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

In preparing the Financial Information, the accounting policies of Security Matters have been applied consistently throughout the periods presented. The significant accounting policies of Security Matters relevant to the Financial Information are set out in Section 4.11.

The Directors have considered ASIC Regulatory Guide 170 and having regard to the requirements of this Regulatory Guide, note any prospective financial information would contain a broad range of potential outcomes and possibilities such that the Directors have concluded Security Matters cannot include prospective financial information in this Prospectus.

b) Preparation of Historical Financial Information

The Historical Financial Information has been extracted from the financial statements of Security Matters Israel for FY2015, FY2016 and FY2017.

The financial statements of Security Matters Israel for FY2015, FY2016 and FY2017 were each audited by BDO Israel in accordance with International Standards on Auditing. BDO Israel issued unqualified audit opinions on each of these financial statements.

c) Preparation of Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been prepared solely for the purposes of inclusion in this Prospectus and has been extracted from the financial statements of Security Matters Israel with adjustments applied to reflect the Company's capital structure that will be in place following completion of the Offer. Refer to Section 4.5 for a reconciliation between the Pro Forma Historical Financial Information and the statutory equivalent financial information.

The Company was incorporated on 16 May 2018 for the purposes of the IPO. The Company intends to settle the Security Matters Israel Acquisition immediately prior to Completion of the Offer. Following completion of the Security Matters Israel Acquisition, Security Matters Israel will be a wholly owned subsidiary of the Company.

The Directors have elected to account for the above restructure as a capital re-organisation rather than a business combination. In the Directors' judgement, the continuation of existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure.

4. Financial Information

4.2 Basis of Preparation and Presentation of the Financial Information *continued*

As such, the consolidated financial statements of Security Matters will be presented as a continuation of the pre-existing accounting values of assets and liabilities in the Security Matters Israel financial statements with Security Matters Israel deemed to be the acquirer for accounting purposes.

The Pro Forma historical consolidated Statement of Financial Position as at 31 December 2017 presented in table 4.4 of this Prospectus has been reviewed by BDO Corporate Finance.

Investors should note the scope and limitations of BDO Corporate Finance's Investigating Accountant's Report (refer to Section 8).

d) Explanation of certain non-IFRS and other financial measures

The Company uses certain measures to manage and report on its business that are not recognised under IFRS. These measures are collectively referred to as 'non-IFRS financial measures'. Non-IFRS financial measures are intended to supplement the measures calculated in accordance with IFRS and not as a substitute. As non-IFRS financial measures are not defined by the recognised body of accounting standards, they do not have a prescribed meaning and the way that the Company calculates them may

be different to the way that other companies calculate similarly titled measures. Readers should therefore not place undue reliance on the non-IFRS financial information.

In the disclosures in this Prospectus, the Company uses the following non-IFRS measures of performance to assist prospective investors in understanding the trends in financial performance and profitability.

- **Gross profit** is calculated as revenue less costs of sales (excluding depreciation);
- **EBITDA** is earnings before interest, tax, depreciation and amortisation expenses; and
- **EBIT** is earnings before interest and tax expenses.

Although the Directors believe that these measures provide useful information about the financial performance of the Company, they should be considered as supplements to the Statements of Profit or Loss and Other Comprehensive Income and Statements of Cash Flow measures that have been presented in accordance with the Australian Accounting Standards and not as a replacement for them. Because these non-IFRS financial measures are not based on Australian Accounting Standards, they do not have standard definitions and the way the company calculated these measures might differ from similarly titled measures used by other companies. Readers should therefore not place undue reliance on these non-IFRS financial measures.

4.3 Historical consolidated Statements of Profit or Loss and Other Comprehensive Income

Set out below is a summary of Security Matters Israel's historical consolidated Statements of Profit or Loss and Other Comprehensive Income for FY2015, FY2016 and FY2017.

Table 4.2: Security Matters Israel historical consolidated Statements of Profit or Loss and Other Comprehensive Income

\$000 ¹	Historical US\$			Historical AU\$		
	FY2015 Audited	FY2016 Audited	FY2017 Audited	FY2015 Audited	FY2016 Audited	FY2017 Audited
Revenue	—	—	6	—	—	8
Less: Cost of revenues	—	—	(15)	—	—	(20)
Gross profit	—	—	(9)	—	—	(12)
Share based compensation	—	—	(720)	—	—	(940)
Research and development expenses	(168)	(516)	(845)	(224)	(694)	(1,103)
Impairment of property and equipment	—	(683)	—	—	(919)	—
General and administrative expenses	(160)	(376)	(428)	(213)	(506)	(558)
Selling and marketing expenses	(42)	(44)	(16)	(56)	(59)	(21)
EBITDA	(370)	(1,619)	(2,018)	(493)	(2,179)	(2,633)
Depreciation and amortisation	(4)	(12)	(61)	(5)	(16)	(80)
EBIT	(374)	(1,631)	(2,079)	(498)	(2,195)	(2,713)
Net interest & financing costs	(6)	(695)	(974)	(8)	(935)	(1,271)
Net profit before tax	(380)	(2,326)	(3,053)	(506)	(3,130)	(3,984)
Income tax expense	—	—	—	—	—	—
Net profit after tax	(380)	(2,326)	(3,053)	(506)	(3,130)	(3,984)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	(380)	(2,326)	(3,053)	(506)	(3,130)	(3,984)

Notes:

1. All amounts disclosed in the tables, unless otherwise noted, are presented in Australian dollars and rounded to the nearest thousand. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.
2. USD financial information has been translated into Australian dollars at the average exchange rate for the relevant financial period, being 1.33 for FY2015, 1.35 for FY2016 and 1.30 for FY2017.

4. Financial Information

4.4 Historical consolidated Statements of Cash Flows

Set out below is a summary of Security Matters Israel's historical Consolidated Statements of Cash Flows for FY2015, FY2016 and FY2017.

Table 4.3: Security Matters Israel historical consolidated Statements of Cash Flows

\$000 ¹	Historical US\$			Historical AU\$		
	FY2015 Audited	FY2016 Audited	FY2017 Audited	FY2015 Audited	FY2016 Audited	FY2017 Audited
EBIT	(370)	(1,619)	(2,018)	(493)	(2,179)	(2,633)
<i>Non cash items in EBITDA :</i>						
Share based compensation	—	—	720	—	—	940
Change in fair value of convertible loan	—	667	788	—	898	1,028
Increase in other long term liabilities	32	45	18	43	61	23
Impairment of property and equipment, net	—	683	—	—	919	—
Exchange rate differences on loans from related parties	—	8	56	—	11	73
Movements in working capital	(320)	631	269	(426)	849	351
Net cash flow from operating activities before investing activities, financing activities and tax	(658)	415	(167)	(876)	558	(218)
Purchase of property, plant and equipment	(102)	(991)	(14)	(136)	(1,334)	(18)
Change in bank deposit	(146)	146	—	(194)	196	—
Capitalized development costs	(69)	(324)	(399)	(92)	(436)	(521)
Net cash flow before interest, tax and financing activities	(975)	(754)	(580)	(1,299)	(1,015)	(757)
Net Proceeds/(repayment) of borrowings	512	1,555	548	682	2,093	715
Prepayments on account of shares	—	—	130	—	—	170
Issuance of shares, net	500	—	750	666	—	979
Net interest and financing costs	(6)	(695)	(974)	(8)	(935)	(1,271)
Taxation paid	—	—	—	—	—	—
Dividends paid	—	—	—	—	—	—
Net Cash Flow	31	106	(126)	41	143	(164)

Notes:

- All amounts disclosed in the tables, unless otherwise noted, are presented in Australian dollars and rounded to the nearest thousand. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.
- USD financial information has been translated into Australian dollars at the average exchange rate for the relevant financial period, being 1.33 for FY2015, 1.35 for FY2016 and 1.30 for FY2017.

4. Financial Information

4.5 Pro Forma historical consolidated Statement of Financial Position

Set out in the table below are the adjustments that have been made to the consolidated Statement of Financial Position of Security Matters Israel as at 31 December 2017 to present the pro forma consolidated Statement of Financial Position of Security Matters. The adjustments include the impact of the change in capital structure that will be in place immediately following completion of the Offer, as if the Offer had occurred as at 31 December 2017. These adjustments include assumptions relating to matters that are known as at the date of the Prospectus.

Table 4.4: Security Matters' pro forma historical consolidated Statement of Financial Position as at 31 December 2017

As at 31 December 2017 Amount in 000s	Security Matters Israel (US\$)	Security Matters Israel (AU\$)	Notes	Minimum subscription		Maximum subscription	
				Pro forma adjustments	Security Matters Pro forma	Pro forma	Security Matters Pro forma
Current assets							
Cash and cash equivalents	11	15	1	5,220	5,235	6,611	6,626
Other accounts receivable	163	220		—	220	—	220
Total current assets	174	235		5,220	5,455	6,611	6,846
Non-current assets							
Property, plant and equipment	360	486		—	486	—	486
Intangible assets	779	1,053		—	1,053	—	1,053
Total non-current assets	1,139	1,539		—	1,539	—	1,539
Total assets	1,313	1,774		5,220	6,994	6,611	8,385
Current liabilities							
Trade payables	391	528		—	528	—	528
Other accounts payable	352	476		—	476	—	476
Convertible loan at fair value	3,586	4,846	2	(4,846)	—	(4,846)	—
Loans from related parties	72	97		—	97	—	97
Total current liabilities	4,401	5,947		(4,846)	1,101	(4,846)	1,101
Non-current liabilities							
Loans from related parties	476	643		—	643	—	643
Other long term liabilities	95	128		—	128	—	128
Total non-current liabilities	571	772		—	772	—	772
Total liabilities	4,972	6,719		(4,846)	1,873	(4,846)	1,873
Net assets	(3,659)	(4,945)		10,066	5,121	11,457	6,512
Equity							
Share based payments reserve	720	973	3	573	1,546	615	1,588
Prepayments on account of shares	130	176	4	(176)	-	(176)	-
Share capital	1,250	1,689	5	11,483	13,173	12,830	14,519
Retained profits	(5,759)	(7,782)	6	(1,815)	(9,598)	(1,812)	(9,594)
Total equity	(3,659)	(4,945)		10,066	5,121	11,457	6,512

Notes:

- All amounts disclosed in the tables, unless otherwise noted, are presented in Australian dollars and rounded to the nearest thousand. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.
- Where applicable, amounts disclosed in the above table have been translated from the reporting currency of US Dollars to Australian dollars at the closing rate applicable as at 30 June 2018 being 1.35.

4. Financial Information

4.5 Pro Forma historical consolidated Statement of Financial Position *continued*

1.5.2 Pro forma adjustments to consolidated Statement of Financial Position

Note 1 – Cash and cash equivalents

Cash and cash equivalents \$000	Pro forma after Offer	
	Minimum	Maximum
Audited balance of Security Matters Israel as at 31 December 2017 US\$	11	11
Audited balance converted to AU\$	15	15
Pro forma adjustments		
<i>Subsequent events:</i>		
Proceeds from new convertible notes issued net of borrowing costs	1,579	1,579
Proceeds from the issuance of new shares to existing shareholders	838	838
Cash used in the ordinary course of business	(1,300)	(1,300)
<i>Impacts of the Offer:</i>		
Proceeds from shares issued under the Offer	5,000	6,500
Capital raising costs from Offer proceeds	(897)	(1,006)
Total pro forma adjustments	5,220	6,611
Pro forma Balance	5,235	6,626

Subsequent to 31 December 2017, Security Matters Israel:

- issued additional convertible notes, the net proceeds of which were \$1.6 million;
- received proceeds of \$0.8 million from the issuance of new shares; and
- utilised \$1.3 million in cash to facilitate its operations.

The Offer is expected to raise a minimum of \$5.0 million and a maximum of \$6.5 million before payment of Offer costs. Offer costs incurred are expected to total between approximately \$0.9 million (minimum) and \$1.0 million (maximum) (inclusive of non-recoverable GST where applicable).

Note 2 – Convertible notes

Convertible notes \$000	Pro forma after Offer	
	Minimum	Maximum
Audited balance of Security Matters Israel as at 31 December 2017 US\$	3,586	3,586
Audited balance converted to AU\$	4,846	4,846
Pro forma adjustments		
<i>Subsequent events:</i>		
Conversion of existing convertible notes to equity	(4,846)	(4,846)
Issuance of new convertible notes	1,579	1,579
Costs of borrowing of new convertible notes	101	101
<i>Impacts of the Offer:</i>		
Conversion of new convertible notes	(1,680)	(1,680)
Total pro forma adjustments	(4,846)	(4,846)
Pro forma Balance	—	—

Security Matters Israel had a convertible notes balance of \$4.8m as at 31 December. Subsequent to 31 December 2017, these convertible notes were converted to equity.

In addition, subsequent to 31 December 2017, the company issued new convertible notes with gross proceeds of \$1.7 million.

As a result of the Offer, the convertible notes issued subsequent to 31 December 2017 will be converted to equity.

4. Financial Information

4.5 Pro Forma historical consolidated Statement of Financial Position *continued*

Note 3 – Share based payments reserve

Share based payments reserve \$000	Pro forma after Offer	
	Minimum	Maximum
Audited balance of Security Matters Israel as at 31 December 2017 US\$	720	720
Audited balance converted to AU\$	973	973
Pro forma adjustments		
<i>Impacts of the Offer:</i>		
Options issued to lead manager	573	615
Total pro forma adjustments	573	615
Pro forma Balance	1,546	1,588

As a result of the Offer, 5,227,541 (Minimum Subscription) and 5,602,541 (Maximum Subscription) options will be issued to the Lead Manager, which have a fair value of \$0.6 million and \$0.6 million respectively. Refer to Section 10.12 for further information.

Note 4 – Prepayments on amounts of share capital

Prepayments on account of share capital \$000	Pro forma after Offer	
	Minimum	Maximum
Audited balance of Security Matters Israel as at 31 December 2017 US\$	130	130
Audited balance converted to AU\$	176	176
Pro forma adjustments		
<i>Subsequent events:</i>		
Shares issued for amounts of prepaid share capital	(176)	(176)
Total pro forma adjustments	(176)	(176)
Pro forma Balance	—	—

Subsequent to 31 December 2017, Security Matters Israel issued share capital for amounts that were prepaid as at 31 December 2017.

Note 5 – Share capital

Share capital \$000	Pro forma after Offer	
	Minimum	Maximum
Audited balance of Security Matters Israel as at 31 December 2017 US\$	1,250	1,250
Audited balance converted to AU\$	1,689	1,689
Pro forma adjustments		
<i>Subsequent events:</i>		
Conversion of convertible notes subsequent to 31 December 2017	4,846	4,846
Shares issued for amounts of prepaid share capital	176	176
Issuance of new shares to existing shareholders	838	838
<i>Impacts of the Offer:</i>		
Proceeds from shares issued under the Offer	5,000	6,500
Offer costs in relation to new equity raised	(483)	(595)
Conversion of convertible notes on IPO	1,680	1,680
Equity settled costs of the Offer	(573)	(615)
Total pro forma adjustments	11,483	12,830
Pro forma Balance	13,173	14,519

4. Financial Information

4.5 Pro Forma historical consolidated Statement of Financial Position *continued*

Subsequent to 31 December 2017:

- convertible notes on issue as at 31 December 2017 were converted to equity;
- new shares were issued in relation to prepayments made before 31 December 2017 totalling \$0.2 million; and
- new shares were issued to existing shareholders, raising \$0.8 million.

As a result of the Offer:

- the Company will raise a minimum of \$5.0 million and a maximum of \$6.5 million. Offer costs directly attributable to the new equity raised are booked against share capital;
- convertible notes issued after period end totalling \$1.7 million (gross) will be converted to share capital on completion of the Offer; and
- the fair value of the Options issued to the Lead Manager have been booked against share capital.

Note 6 – Retained earnings

Retained earnings \$000	Pro forma after Offer	
	Minimum	Maximum
Audited balance of Security Matters Israel as at 31 December 2017 US\$	(5,759)	(5,759)
Audited balance converted to AU\$	(7,782)	(7,782)
Pro forma adjustments		
<i>Subsequent events:</i>		
Borrowing costs of new convertible notes	(101)	(101)
Cash expenses in the ordinary course of business	(1,300)	(1,300)
<i>Impacts of the Offer:</i>		
Offer costs in relation to listing of existing equity	(415)	(411)
Total pro forma adjustments	(1,815)	(1,812)
Pro forma Balance	(9,598)	(9,594)

Subsequent to 31 December 2017, Security Matters Israel:

- issued new convertible notes for which \$0.1 million of the borrowing costs were capitalized and subsequently expensed; and
- incurred \$1.3 million of cash expenses in the ordinary course of operations.

Under the Offer, costs associated with the listing of existing equity will be expensed.

4.6 Management discussion and analysis of the Financial Information

The management discussion and analysis (MD&A) below relates to the Security Matters Israel historical consolidated Statements of Profit or Loss and Other Comprehensive Income and Statements of Cash Flows and should be read in conjunction with the description of the basis upon which the information has been prepared.

The MD&A provides a brief discussion of the general factors which affected Security Matters Israel's historical financial performance between FY2015 and FY2017. The discussion of these general factors is intended to provide a summary only and does not detail all the factors that affected Security Matters Israel's historical financial performance.

The information in this Section should also be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

The amounts disclosed in the tables within this Section are presented in AUD (unless otherwise stated). USD financial information has been translated into Australian dollars at the average exchange rate for the relevant financial period, being 1.33 for FY2015, 1.35 for FY2016 and 1.30 for FY2017.

4. Financial Information

4.6 Management discussion and analysis of the Financial Information *continued*

a) Year on year management discussion and analysis

A) FY2015 compared to FY2016

Table 4.5: Selected financial performance items

\$000	FY2015 Audited	FY2016 Audited	Change (%)
Revenue	—	—	—
Less: Cost of revenues	—	—	—
Gross profit	—	—	—
Operating expenses	(493)	(2,179)	342.1%
EBITDA	(493)	(2,179)	342.1%
EBIT	(498)	(2,195)	340.6%

Operating expenses

The increase in operating expenses in FY2016 was primarily driven by a one-off impairment of property and equipment of \$0.9 million, and an increase in research and development expenses of \$0.4 million. The remaining increase is attributable to general and administrative expenses.

B) FY2016 compared to FY2017

Table 4.6: Selected financial performance items

\$000	FY2016 Audited	FY2017 Audited	Change (%)
Revenue	—	8	—
Less: Cost of revenue	—	(20)	—
Gross profit	—	(12)	—
Operating expenses	(2,179)	(2,621)	20.3%
EBITDA	(2,179)	(2,633)	20.9%
EBIT	(2,195)	(2,713)	23.6%

Operating expenses

The increase in operating expenses by 20.3% in FY2017 was primarily driven by share based compensation costs of \$0.9 million mainly granted to the research and development team, and an increase in research and development expenses of \$0.4 million. These increases were partially offset by the one-off impairment noted in FY2016 above.

4.7 Debt facilities

The Convertible loan that was a company liability as at 30 December 2017 was converted to shares in February 2018.

In 2015, the Company entered into a loan agreement with its major shareholders, which bears an interest rate of 4% per annum. As at 31 December 2017, the residual balance of this loan was US\$0.5 million. Immediately following the completion of the offer, the company will commence repayment of the loan from related parties. The scheduled payments are as follows: seven equal instalments of ILS 250,000 per quarter as of completion of the IPO, and an additional final payment of ILS 150,000. Interest is paid monthly.

Subsequent to 31 December 2017, the company entered into convertible loan agreements with multiple parties totalling \$1.68 million. The convertible notes issued in AU\$ carry no interest, whilst US\$0.1 million in convertible notes attract interest at 6% per annum. On completion of the offer, all of the convertible notes issued subsequent to 31 December 2017 will be converted to ordinary shares of Security Matters at a conversion price 35-43% less than the listing price.

4. Financial Information

4.8 Commitments and contingent liabilities

The Company has the following ongoing leasing commitments for its offices and laboratory:

Table 4.7: Lease commitments as at 31 December 2017
(US dollar thousands)

Commitments payable within one year	18
Commitments payable later than one year and within five years	4

4.9 Liquidity and capital resources

Following Completion of the Offer, the Company's principal sources of funds will be cash flow from operations and proceeds from the Offer.

4.10 Dividend Policy

We anticipate that significant expenditure will be required in the technological and business development of the company. These activities are expected to be the primary focus for Security Matters for the two year period following Listing. Accordingly, the company does not expect to pay dividends in the next two years.

Future dividend policy shall be set by the Company's Board of Directors, and will depend on the availability of distributable earnings, operating results, financial condition of the company, future capital requirements and other general and business factors. The Company and its Directors are therefore unable to provide any assurance regarding the payment of dividends in the future, if at all.

4.11 Significant accounting policies

The significant accounting policies adopted in the preparation of the financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention. The Company has elected to present the statement of comprehensive income using the function of expense method.

b) Estimate 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.

c) Foreign currency

The financial statements are prepared in US Dollars, which is the functional currency.

Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 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 consolidated statements of financial position 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; and
- 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.

d) Cash and cash equivalents

Cash equivalents are considered by the Company to be highly-liquid investments, including, inter alia, short-term deposits with banks and the maturity of which do not exceed three months at the time of deposit and which are not restricted.

e) 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 intends 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 reliably the expenditure attributable to the product during the development.

Capitalized development costs are amortized on a straight-line basis over their estimated useful lives of 5 years 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.

f) Earnings per share

Basic earnings per share are calculated as net loss attributed to the Company, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

g) Governmental liabilities on grants received

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.

4. Financial Information

4.11 Significant accounting policies *continued*

h) 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.

i) 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).

j) 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 current assets: 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 trade receivable, 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.

k) Financial liabilities

The Company classifies its financial liabilities as follows:

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.

l) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows.

Financial assets carried at amortized cost.

There is objective evidence of impairment of loans and receivables if one or more events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments.

m) 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.

In 2016, the Company recognized impairment of property and equipment. During the years 2015 and 2017 no impairment charges of non-financial assets were recognized.

4. Financial Information

4.11 Significant accounting policies *continued*

n) 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:

Asset	%
Computers	33
Machines and equipment	20
Furniture and office equipment	10
Leasehold improvements ¹	5

Notes:

1. 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.

o) Employee benefits

The Company contributes towards the state pension in accordance with local legislation where required. The only obligation of the Company is to make the required contributions. Costs related to such contributions are expensed in the period in which they are incurred.

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 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.

p) Intangible assets

Intangible assets include internally generated capitalized technology development costs. 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 of 5 years 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.

q) Share based compensation

The Company measures the share-based payments expense and the cost of equity-settled transaction with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted.

r) New accounting policies and disclosures

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative:

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

s) New IFRSs in the period prior to their adoption

IFRS 9 Financial Instruments (hereafter – IFRS 9):

IFRS 9 is to be applied for reporting periods beginning on or after 1 January 2018.

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

IFRS 9 will not have a material impact on the financial statements.

4. Financial Information

4.11 Significant accounting policies *continued*

IFRS 15 – Revenue from Contracts with Customers (hereafter – IFRS 15)

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in IFRS 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, IFRS 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in IFRS 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The standard shall be applied retrospectively for annual reporting periods starting on 1 January 2018 or thereafter. IFRS 15 will not have a material impact on the financial statements.

IFRS 16 – Leases (hereafter – IFRS 16)

When effective, this Standard will replace the current accounting requirements applicable to leases in IAS 17: *Leases and related Interpretations*. IFRS 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with IAS 16: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of IFRS 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with IAS 8 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

IFRS 16 is to be applied for reporting periods beginning on or after 1 January 2019.

IFRS 16 will not have a material impact on the financial statements.

4.12 Critical accounting estimates and judgements:

a) Amortisation of capitalised development costs and the useful life of property and equipment

Intangible assets and property and equipment 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. Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income in specific periods.

b) Share based compensation

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 comprehensive income 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.

5. Risk Factors

5.1 Introduction

This Section describes some of the potential material risks associated with the Company's business and the industry in which it operates and risks associated with an investment in Shares.

The Company is subject to a number of risks, both specific to its business activities and of a general nature. These risks may either individually or in combination materially adversely impact the future operating and financial performance of the Company, the investment returns and the value of Shares.

The occurrence or consequences of some of the risks described here are partially or completely outside of the control of the Company, its Directors and management team. Investors should note that this Section 5 does not purport to list every risk that may be associated with the Company's business or the industry in which it operates, or an investment in Shares, now or in the future. The selection of risks has been based on the Company's assessment of a combination of the probability of the risk occurring, the ability to mitigate the risk and the impact of the risk if it did occur. This assessment is based on the knowledge of the Directors as at the Prospectus Date, but there is no guarantee or assurance that the risks will not change or that other risks will not emerge. There can be no guarantee that the Company will achieve its stated objectives, or that any forward-looking statement contained in this Prospectus will be achieved or realised. Investors should note that past performance may not be a reliable indicator of future performance.

Before applying for Shares, investors should satisfy themselves that they have a sufficient understanding of the risks involved in making an investment in the Company and whether it is a suitable investment for them, having regard to their investment objectives, financial circumstances and taxation position. Investors should seek advice from their stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest in the Company.

5.2 Risks specific to an investment in Security Matters

a) Isorad Licence Agreement

The Source IP licenced to the Company from Isorad under the Isorad Licence Agreement forms the basis of the Company's technology.

The Isorad Licence Agreement will continue in full force and effect in perpetuity unless terminated. If either party does not remedy a material breach of its obligations within 180 days of notice of the material breach, the non-defaulting party may terminate the Isorad Licence Agreement immediately. Isorad may terminate the agreement by providing 30 days prior written notice if the royalties payable to Isorad are \$nil in any semi-annual report or the Company has breached other certain obligations (such as a failure to maintain a patent or patent application in the previous semi-annual review period).

The termination of the Isorad Licence Agreement may have a material adverse effect on the Company.

b) Intellectual Property

The Company has applied for three patents independently and nine patents together with Soreq as described in the Patent Report.

While the Company is not aware of the Patent Applications and the technology infringing any third party's patents, it has not undertaken an exhaustive assessment of existing patents to determine any overlapping technology or potential infringement, as the costs of such would be prohibitive. Accordingly, there is a risk that a third party may claim that the Patent Applications infringe that third party's patent.

Any event that would jeopardise the Company's proprietary rights or any claims of infringement by third parties could have an adverse effect on the Company's ability to market or exploit its technology.

There is no guarantee that the Company's proposed patents the subject of the Patent Applications will provide adequate protection for the Company's intellectual property, or that third parties will not infringe or misappropriate the patents or similar proprietary rights. In addition, there can be no assurance that the Company will not have to pursue litigation against other parties to assert its rights.

Section 2 of the Patent Report sets out the limitations of protection connected to the Patent Applications. There is no guarantee that any of the 12 patents that have been applied for will be granted. The Patent Report considered that certain claims made in the Patent Applications are either not novel, lack an inventive step or both. If some or all of the Patent Applications are not granted, the Company's ability to exploit its technology may be materially adversely affected.

c) Reliance on Key Personnel

The Company's research and development and its operational success will substantially depend on the continued employment of senior executives, technical staff and other key personnel. While the Company considers that the impact of turnover of manufacturing personnel is mitigated by having a streamlined and easily communicable assembly process, the loss of key management personnel may have a detrimental impact on the Company.

Although Security Matters Israel's employment agreements contain non-compete clauses, Israeli law does not fully enforce employees' non-compete obligations and may limit their application, including with regard to duration and scope. The non-compete provisions in Security Matters Israel's standard agreement survives for a period of 24 months after termination of the employment.

Under Israeli case law an Israeli Court will usually only enforce non-compete provisions if the employee received specific consideration for it. The standard employment agreement does not provide extra consideration and thus, the enforceability of such provisions is uncertain.

5. Risk Factors

5.2 Risks specific to an investment in Security Matters *continued*

d) Consumer Preferences

The Company's business is dependent on consumer awareness and market acceptance of its products. The Company may not be able to anticipate and react to trends within the packaging industry in a timely manner or accurately assess the impact that such trends may have on consumer preferences. Failure to respond to changes in consumer preferences or anticipate market trends may adversely affect the Company future revenues and performance. Although the Company has striven to establish market recognition for its products in the packaging industry, it is too early in the life cycle of the Company's brand to determine whether Markers, Readers, blockchain technology and any further technology developed by the Company will achieve and maintain satisfactory levels of acceptance and sustained take-up by manufacturers and consumers.

e) Health and Safety Risks

The Markers used by the Company are produced from materials chosen specifically for a specific application. Markers may, in some cases, include incredibly low concentrations of hazardous materials. The production of the Markers by the Company's employees includes, in some cases, dealing with hazardous materials. That is conducted according to the material's Material Safety Data Sheets and other relevant safety guidelines. These hazardous materials are not radioactive but are chemical substances.

The hazardous materials are sent to the customers at a low concentration (of the Marker) and therefore constitute a very low risk for the Company's customers. The risk of misuse or error in production in rare cases may cause damage to the Company's employees, which may affect the company's expenses and production abilities.

As noted above, the Company is in compliance with the requirements of ISO 9001:2015 standard for quality management and quality assurance as well as safety measures instructed by an external safety engineer.

f) Quality risks

There is a risk (albeit, very low) that the Marker may contaminate the raw material or that certain raw material ingredients may be spoiled, contaminated by chemicals, microorganisms or toxins, or include foreign materials or substances. The risk of contamination may lead to product recalls or other interventions, which may cause serious damage to the Company's reputation, product liability claims and loss of revenue.

Security Matters mitigates the quality risk by following precise production protocols, as well as conducting quality assurance tests to the Markers produced.

g) Development and commercialisation

The success of the Company post Completion of the Offer will depend on the Company's ability to develop and commercialise the Company's technology. A failure to successfully develop and commercialise the Company's technology could lead to a loss of opportunities and adversely impact on the Company's operating results and financial position.

The global market for the Company's technology is ever changing due to new technologies, new products, changes in regulations and other factors influencing market acceptance or market rejection of the Company's technologies. This market volatility and risks exists despite the Company's best endeavours in relation to market research, promotion and sales campaigns. There is a risk that the Company's technology is not accepted by the market or are not used in proposed markets and industries. There is a risk that Company will not be able to commercialise its products, which could adversely impact on the Company's operations.

h) Increasing Competition

There are several competitors that operate in the anti-counterfeit and track-and-trace industries, but the Board considers that there are currently few, if any, competitors with the technological abilities to match the Company's capabilities. However, if new competitors enter the market, or established companies develop new products and technologies that are superior to the Company's current technology, the Company's ability to successfully exploit its technological advantage may be affected. The Company may be unable to develop further products or keep pace with developments and may lose market share to competitors. If the Company's competitors develop a more efficient business model or undertake a more aggressive marketing campaign, this is likely to adversely affect the Company's marketing strategies and results of operations.

There is no guarantee that consumers will take up the Company's products and the Company may be unable to compete successfully with more established track and trace and anti-counterfeit companies on price or quality or may be unsuited to the established preferences of potential consumers.

Generally, the track and trace and anti-counterfeit industry in which the Company operates is subject to global and domestic competition. The Company is unable to influence or control the conduct of its competitors and such conduct may detrimentally affect the Company's financial and operating performance.

i) Failure to comply with laws, regulations and standards

Any changes to the existing regulatory framework or the imposition of new legislation or regulations applicable to any of the industries in which Security Matters operates may adversely affect the financial and operating performance of Security Matters. This risk factor applies to government policy and legislative changes in Australia and Israel, as well as the other countries in which the Company operates.

Additionally, the Markers must comply with health and safety laws in a wide range of jurisdictions, and failure to comply with such laws may lead to penalties and other liabilities being imposed on the Company. In such circumstances, the Company may be required to suspend production or cease operations, which may lead to a materially adverse effect on the Company's financial performance and profitability.

5. Risk Factors

5.2 Risks specific to an investment in Security Matters *continued*

j) Shareholders' rights and responsibilities will be governed by Australian law

The rights and responsibilities of the Shareholders are affected by political, sovereign and economic risks.

As the Company operates in foreign jurisdictions (such as Israel), it will be subject to those risks associated with operating in a foreign jurisdiction. Such risks may include economic, social or political instability or change, hyperinflation, currency non-convertibility or instability and changes of law affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, licencing, repatriation of income or return of capital, consumer health and safety or labour relations. While Israel is economically stable, there is no certainty that political and economic conditions will remain stable. Any deterioration in political or economic conditions, including hostilities or terrorist activity may adversely affect the Company's operations and profitability. There is a risk that the government of Israel may change its policies regarding foreign investment, which may have an adverse impact on the Company's profitability.

k) Foreign sales

As at the date of this Prospectus, the Company undertakes international sales of its products. The international sales undertaken by the Company will be subject to a number of risks inherent in selling and operating abroad, which could adversely affect its ability to increase or maintain foreign sales. These include, but are not limited to, risks regarding:

- currency exchange rate fluctuations;
- local and international economic and political conditions;
- disruptions of capital and trading markets;
- accounts receivable collection and longer payment cycles;
- difficulties in managing foreign distribution and operations;
- potential hostilities and changes in trade or diplomatic relationships;
- restrictive government actions (such as restrictions on the transfer or repatriation of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);
- changes in legal or regulatory requirements;
- the laws and policies of Israel and other countries affecting trade, foreign investment and loans and import or export licensing requirements; and
- tax laws.

Changes in circumstances or market conditions resulting from those risks may restrict the Company's ability to operate in an affected region and/or adversely affect the profitability of the Company's operations in that region.

l) Cyber security risks

The Company invests significant resources in information technology protection measures. If these measures are breached, the Company may incur significant legal and financial exposure as a result of a loss of information, potential litigation and potential liability.

m) Counter party risk

The Company has and will engage with a number of counterparties to successfully commercialise and exploit its technology. Due to its early stage, the Company is party to a number of commercial arrangements with counter parties that are informal, non-revenue generating, non-binding or in pilot phase. There is no guarantee that these commercial arrangements will result in the Company entering into binding, revenue generating agreements with some or all of these counterparties.

Further, if relationships with some or all of these parties break down, or these parties fail to perform their obligations, then the Company's operational performance may be adversely affected.

5.3 General risks of an investment in Security Matters

a) Price of Shares

Once the Company becomes a publicly listed company on the ASX, the Company will become subject to general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in the Share price that are not explained by the Company's fundamental operations and activities.

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the Offer Price. There is no assurance that the price of the Shares will increase following the quotation on the ASX, even if the Company's earnings increase.

Some of the factors which may adversely impact the price of the Shares include:

- fluctuations in the domestic and international market for listed securities;
- general economic conditions including interest rates, inflation rates, exchange rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies and settings;
- changes in legislation or regulation;
- inclusion in or removal from market indices;
- the nature of the markets in which the Company operates;
- general operational and business risks; and
- sale of a substantial number of Company's securities.

b) Trading and liquidity in Shares

The Shareholders' escrow position set out in Section 1.6 may limit the liquidity of the market for the Shares during this escrow period.

Prior to the Offer, there has been no public market in the Shares. Once the Shares are quoted on the ASX, there can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid for their Shares under the Offer.

5. Risk Factors

5.3 General risks of an investment in Security Matters *continued*

c) Shareholder dilution

Following the Offer, the Company will have sufficient working capital to fund its near-term business operations but may need additional capital to fully commercialize the Company's products. Additional capital may come in the form of licensing or partnering fees, or in the future, the Company may elect to engage in further capital raisings to fund operations, undertake other strategic initiatives, and facilitate employee share plans. While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders at the time may be diluted as a result of such issues of Shares, which may ensue from the exercise of Options granted under the Company's Share Option Plan, or further capital raisings.

d) Inability to pay dividends or make other distributions

The Company has never declared or paid cash dividends on its share capital, and there is no guarantee that dividends will be paid on Shares in the future. Any distribution is a matter to be determined by the Board in its discretion and the Board's decision will have regard to, amongst other things, the financial performance and position of the Company, relative to its capital expenditure and other liabilities.

Moreover, to the extent that the Company pays any dividends, its ability to offer fully franked dividends is contingent on making taxable profits. The Company's taxable profits may be volatile, making the payment of dividends unpredictable. The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances.

Shareholders should also be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on the individual tax position of each Shareholder.

e) The Company may be subject to changes in tax law

Changes in Australian or Israel tax law (including goods and services taxes and stamp duties in Australia or Value Added Tax in Israel), or changes in the way taxation laws are interpreted may impact the Company's tax liabilities or the tax treatment of a Shareholder's investment. In particular, both the level and basis of taxation may change. In addition, an investment in the Shares involves tax considerations which may differ for each Shareholder. Each prospective Shareholder is encouraged to seek professional tax advice in connection with any investment in the Company.

f) Use of Proceeds

Although the Company currently intends to use the net proceeds from the Offer in the manner described in the Section 7.3, the Company's management will have broad discretion in the application of the balance of the net proceeds from the Offer and could spend the proceeds in ways that are not anticipated at the time of the Offer and/or do not improve the Company's results of operations or enhance the value of its Shares. The failure by Company's management to apply these funds effectively could result in financial losses that could have a material adverse effect on Company's business, cause the price of Company's Shares to decline and delay the development of new products. Pending the use of Offer funds, the Company may invest the net proceeds from the Offer in a manner that does not produce income or that loses value.

g) Possibility of force majeure events

Events may occur within or outside Australia and Israel that could impact on the Australian and/or Israeli economy, the Company's operations and the price of the Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for the Company's products and its ability to conduct business. While the Company seeks to maintain insurance in accordance with industry practice to insure against the risks it considers appropriate after consideration of the Company's needs and circumstances, no assurance can be given as to the Company's ability to obtain such insurance coverage in the future at reasonable rates or that any coverage arranged will be adequate and available to cover any and all potential claims. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

h) Insurance

The Company and Security Matters Israel seek to maintain Public Offering of Securities Insurance and appropriate policies of insurance consistent with those customarily carried by organisations in their industry sector. Any increase in the cost of the insurance policies of the Company, Security Matters Israel or the industry in which they operate could adversely affect the Company's business, financial condition and operational results. The Company's insurance coverage may also be inadequate to cover losses it sustains. In particular, the Company's insurance does not extend to any potential liability or claims made against the Company under the Company's agreement with Kafrit and the Isorad Licence Agreement. Uninsured loss or a loss in excess of the Company's insured limits could adversely affect the Company's business, financial condition and operational results.

i) Litigation

The Company may be involved in litigation disputes with third parties including suppliers, customers, employees, former employees and government bodies in the ordinary course of business. The occurrence of a litigation dispute may be costly and impact on the Company's reputation which may have a material adverse effect on the business, financial condition and results of the Company.

6. Key People, Interests and Benefits

6.1 Board of Directors

The Directors of the Company as at Completion of the Offer bring to the Board relevant expertise and skills, including industry and business knowledge, financial management and corporate governance experience.

Director

Experience and background

Haggai Alon

Founder, Executive Director,
Chief Executive Officer



Haggai Alon is a co-founder of Security Matters Israel and has over 17 years of experience in commercializing technology. Haggai Alon has commercialised technology out of the Ministry of Defense in Israel as well as in the private sector.

Haggai Alon has a masters degree out of Tel Aviv and Haifa Universities in international relations and political science and will soon complete his Ph.D.

Haggai Alon was previously the chief coordinator of the Israeli military industry body at the Ministry of Defense and was the CEO of an economic consulting firm to the Kibbutz industries.

Haggai Alon has been a director of Security Matters Israel since January 2015 and was recently appointed as a Director of the Company.

Everardus (Ed) Hofland

Executive Chairman



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 and CEO of Ardag Fish Farm that produces fish and caviar.

Ed Hofland has been a director of Security Matters Israel since January 2015 and was recently appointed as a Director of the Company.

David Rosenblatt

Executive Director and Vice-Chairman



David Rosenblatt is a co-founder of Security Matters Israel and has developed and scaled businesses in Silicon Valley, Wall Street and Israel. David Rosenblatt's experience spans the healthcare, technology, finance and energy industries.

David Rosenblatt has experience both building established businesses and startups, including serving as Managing Director at BlackRock and co-founding Quicken Loans at Intuit. Earlier in his career, David Rosenblatt practiced corporate and international law with United States law firm Weil, Gotshal & Manges.

David Rosenblatt holds a MBA with distinction from Harvard Business School, a Juris Doctor from Northwestern University Law School, and a Bachelor of Science with honors from Pennsylvania State University.

David Rosenblatt has been a director of Security Matters Israel since January 2015 and was recently appointed as a Director of the Company.

Amir Bader

Non-Executive Director



Amir Bader brings to the Company extensive experience in the management of agricultural 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 Degania 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.

Amir Bader has been a director of Security Matters Israel since 2015 and was recently appointed as a Director.

6. Key People, Interests and Benefits

6.1 Board of Directors *continued*

Director

Experience and background

Jovanka Naumoska

Australian based Non-Executive Director and Independent Director



Jovanka Naumoska is a corporate lawyer with ASX board-level experience. Jovanka Naumoska serves as non-executive director and company secretary for Imagion Biosystems Ltd (ASX: IBX), a medical device company that develops detection methods for several types of cancer.

Jovanka Naumoska has served as senior corporate lawyer specialising in intellectual property for 15 years, and currently manages a business excellence function and is a policy advisor for an Australian government research agency, and currently holds the position of Manager, Business Excellence at such agency.

Jovanka Naumoska holds Bachelor of Science and Bachelor of Law degrees 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.

Jovanka Naumoska was recently appointed as a Director.

Dr Gregory J Clark AC

Australian based Non-Executive and Independent Director



Dr Gregory Clark is a world-renowned scientist, technologist and businessman. Dr Gregory Clark is currently the Chairman of KaComm Communications.

Dr Gregory Clark spent 15 years as a Research Staff Member and Group Leader in the IBM Research Division in New York. Subsequently, Dr Gregory Clark became the President and subsequent Director of News Technology Group. Dr Gregory Clark was also the President and Chief Operating Officer of Loral Space and Communications, the world's largest commercial satellite manufacturer and, at that time, the world's second largest satellite operator.

Dr Gregory Clark is currently a Director of NextDC (ASX: NXT), the largest Australian data centre company. He is Chairman of the Australian National University Advisory Board on Science and Engineering, Chairman of CUDOS, a research centre of excellence across several universities, a Questacon Board Member and a Royal Institution Australia Board Member. Recently, Dr Gregory Clark retired as a Director of the ANZ Banking Group (ASX: ANZ). In the past he has chaired a number of companies in the Americas and Europe.

Dr Gregory Clark was recently appointed as a Director.

6.2 Director disclosures

Each Director has confirmed to the Company that they anticipate being available to perform their duties as a Director without constraint from other commitments and that they have the necessary skills and ability to devote the appropriate time to perform the role of director in the Company, considering, among other things, the Company's size and its particular requirements.

No Director has been the subject of any disciplinary action, criminal conviction, personal bankruptcy or disqualification in Israel, Australia or elsewhere in the last 10 years, which is relevant or material to the performance of their duties as a Director or which is relevant to a reasonable investor's decision as to whether to subscribe for Shares, except for the described below.

Other than as disclosed below, no Director has been an officer of a company that has entered into any form of external administration as a result of insolvency during the time that they were an officer or within a 12 month period after they ceased to be an officer.

Although not a director of that entity, Haggai Alon previously worked as the deputy general manager for business development of an Israeli public company, Pilt Technologies International Ltd (Pilt) which entered insolvency. In early 2017, an ILS 35.9 million shareholders derivative claim was filed at the end of the seven year statute of limitation period against 18 defendants, including Haggai Alon, regarding the collapse of Pilt (**Claim**). The insurance policy covering directors and officers responded and are now handling the claim. Haggai Alon denies any wrongdoing and does not consider that he will be required to commit any significant time to the conduct of the Claim and therefore will not constrain his ability to perform his duties and obligations to the Company. Neither the Company nor Security Matters Israel is a party to the Claim and the Claim does not relate to the business or the affairs of the Company.

6. Key People, Interests and Benefits

6.3 Senior Management and Key Employees

Key Employee

Experience and background

Haggai Alon

Chief Executive Officer

See Section 6.1.

Yair Grof, Ph.D

Vice President and Chief Scientist



Dr Yair Grof is the Company's Vice President and the Chief Scientist and the one of the inventors of the patent which is the core of Security Matters Israel's technology, the Source IP.

Dr Yair Grof holds a Ph.D. in nuclear physics from the Ben Gurion University and Los Alamos national laboratory. He holds a visitor professor position in New Mexico State University and a consulting position in Gran-Sasso national laboratory in Italy.

Dr Yair Grof worked for more than 23 years at the Soreq nuclear research center in Israel as a senior researcher in different research and managing possessions. He wrote several patents in different fields of interest. Dr Yair Grof served as the national representative of Israel in the International Atomic Energy Agency as a senior expert in different technical committees.

Dr Yair Grof has been the Chief Scientist of Security Matters Israel since its incorporation and is responsible for the research and development of existing and new projects, especially with regards to the physics element of the technology.

Yifat Bareket, Ph.D

VP Global Product Manager



Dr Yifat Bareket is an experienced manager that has significant experience taking research ideas from the laboratory and commercialising and developing these ideas into products.

Dr Yifat Bareket obtained a Ph.D. in Chemistry from Tel Aviv University, and an M.A. in Technology Management from Polytechnic NY. Dr Yifat Bareket has been working in various chemical research and development and management positions for over 20 years.

She served as Vice President of Research and Development at ICL-Industrial Products (ICL-IP) (the world's largest bromine producer) for 6 years, where she was a senior manager for Israel's largest chemical company. In her role at ICL-IP she managed the global research and development of units that included approximately 140 employees in three locations around Israel.

Dr Yifat Bareket brings an extensive background in Chemistry research and development working with various materials such as polymers, plastics, textile, non-woven, packaging etc. over the past 20 years. She has led teams that brought ideas from the research labs to commercialisation in small start-up companies as well as large corporates.

Michal Firstenberg, Ph.D

Head of Marker Department



Dr Michal Firstenberg is an experienced chemistry researcher with academic and industry experience.

Dr Michal Firstenberg received her Ph.D. from the Technion-Israel Institute of Technology, where she was developing new organic semi-conductors for plastic electronics. Synthesizing a library of LEGO-like monomers, she built short conjugated molecules 'brick-by-brick' and tested their functionality in light-emitting diodes and transistors.

She was a visiting scientist at the Massachusetts Institute of Technology within the research group of Media Lab professor Neri Oxman, and studied synthesis of new catalysts for carbon-dioxide reduction as a Senior Intern at the Weizmann Institute of Science.

Dr Michal Firstenberg headed the development of photo-polymer resins for rapid manufacturing in the 3D printing company Formlabs. Prior to that, she worked on biodegradable polymers for the slow release of fertilizers in agricultural soil, a research project funded by Israel's chief scientist.

6. Key People, Interests and Benefits

6.3 Senior Management and Key Employees *continued*

Key Employee

Experience and background

Nadav Yoran, Ph.D

Head of IP, Algorithm and Blockchain



Dr Nadav Yoran is an experienced patent attorney with a strong scientific background that leads the company intellectual property, algorithm and blockchain development.

Dr Nadav Yoran received his Ph.D. in quantum physics from Tel Aviv University and continued as a post-doctorate researcher in the Technion technology institute and in a Quantum information group in the University of Bristol, UK.

Since 2010 and until joining Security Matters, he worked as a patent attorney in two major Israeli patent attorney firms.

Since joining the Company in December 2015, Dr Nadav Yoran leads the development of its intellectual property, algorithm and blockchain systems.

John Poynton, AO

Advisory Board Member



John Poynton AO is Chairman of Jindalee Partners, Strike Energy Limited and SC8 Limited. He is a Board Member of the Future Fund Board of Guardians, a Director of Crown Perth and the Security Research Institute Advisory Board. John Poynton AO is also the Chairman of Council of Christ Church Grammar School and Giving West. He has previously served as the Chairman, Deputy Chairman or Non-Executive Director of a number of ASX listed companies, Federal Government boards, education institutions and not-for-profit enterprises.

John Poynton AO is an Officer in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category. John Poynton AO holds a Bachelor of Commerce and an honorary Doctor of Commerce from the University of Western Australia.

John Poynton's AO experience in doing business in Australia, is set to help the Company in achieving its goal of creating strong relationships with Australian business partners and customers.

Leon Kempler AM

Advisory Board Member



Leon Kempler is involved in various private business activities. He has been associated with Israeli companies such as: Gilat Satellites, Clal Ventures, Emblaze, Vocal Tec, Amdocs and Tescom. He has assisted them in penetrating the Australian market.

His current honorary roles include: National Chairman of the Australia-Israel Chamber of Commerce; Chairman of the Questacon Advisory Council (National Science and Technology Centre, Canberra); Director of Q Australia Foundation; Director of Wonderment Walk Victoria, Director of the General Sir John Monash Foundation; Member of the Board of Directors of The Israel Innovation Institute.

Leon Kempler has Honorary Fellowships from The Technion, The Hebrew University of Jerusalem and Monash University. Leon Kempler was awarded an Honorary Doctorate of Science from Deakin University.

Yair Seroussi, CPA

Advisory Board Member



Yair Seroussi is an experienced business leader in Israel's financial sector. He served as the Chairman of Bank Hapoalim, Israel's largest bank and a public company, for more than seven years. Yair Seroussi is the founder of Morgan Stanley activity in Israel, and headed the Israeli activity for more than 16 years.

Yair Seroussi has also served as a director in several leading public companies in Israel with relevant areas of activity, including Israel Corp. (a leading industrial holding company that was the owner of ICL (chemicals and minerals), Tower (Electronics), Zim (Logistics) and others) and Frutarom (food industry).

As an Advisory Board member of Security Matters, Yair Seroussi brings his experience with management of public companies.

6. Key People, Interests and Benefits

6.3 Senior Management and Key Employees *continued*

Key Employee

Experience and background

Major General Ami Shafran

Head of Advisory Board



Major General Ami Shafran is the head of Security Matters Israel's advisory board since 2017. As such, he provides his technology and business development experience to the company. Major General Ami Shafran is the chairman of Elsight (ASX:ELS), a successful Israeli technology company listed on the ASX.

Major General Ami Shafran is the former head of the Israeli Defense Force Information and Communications Technology Command. He held numerous prestigious and prominent positions in Israel's Defence and Intelligence forces, including Head of research and development in Israel Ministry of Defense, Research and Development Directorate, and the Research and Development Attaché at the Israeli embassy in the USA.

Major General Ami Shafran holds a Bachelor of Science Degree in Electrical Engineering from the Ben Gurion University in Beer Sheva, and a MBA from the Tel Aviv University.

6.4 Interests and benefits

This Section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus; or
- Promoter of the Company,

holds at the Prospectus Date, or has held in the two years before the Prospectus Date, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

6.5 Executive Directors remuneration

a) Haggai Alon

The key terms of Haggai Alon's executive employment agreement with the Company are as follows:

- Haggai Alon is appointed as the CEO of the Company until the agreement is terminated;
- Haggai Alon will be paid ILS 35,000 (approximately \$13,000) gross per month, plus expenses and entitlements (such as sick leave, holidays or pension payments);
- the contract is governed by Israeli law;
- Haggai Alon is entitled to a bonus of ILS 150,000 (approximately \$55,500) after Completion of the Offer and Listing; and
- Haggai Alon will be issued 5,000,000 Performance Options.

b) Ed Holfand

The key terms of Ed Holfand's executive agreement with the Company are as follows:

- Ed Holfand is appointed as the Executive Chairman of the Company until the agreement is terminated;
- Ed Holfand does not receive a salary;
- Ed Holfand will 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; and
- Ed Holfand will be issued 5,000,000 Performance Options.

6. Key People, Interests and Benefits

6.5 Executive Directors remuneration *continued*

c) David Rosenblatt

The key terms of David Rosenblatt's executive agreement with the Company are as follows:

- David Rosenblatt is appointed as an executive director and Vice Chairman of the Company until the agreement is terminated;
- David Rosenblatt does not receive a salary;
- David Rosenblatt will 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; and
- David Rosenblatt will be issued 5,000,000 Performance Options.

6.6 Non-executive Directors remuneration

Under Australian law, the remuneration of the directors is set by the shareholders, following approval by the Company's compensation committee and Board of Directors, and, subject to certain exemptions, needs to be compliant with the Company's compensation policy then in effect. Under the ASX Listing Rules, the total amount paid to all non-executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company at a general meeting. The annual non-executive Directors fees are currently capped at \$300,000.

The Company has entered into an appointment letter with each of its Non-Executive Directors which set out the annual fees each Non-Executive Director is to be paid.

Non- Executive Director	Annual Director Fees
Amir Bader	Nil
Jovanka Naumoska	\$35,000 (excluding superannuation) (before tax) per annum, with 50% payable in cash and 50% payable in Shares
Dr Gregory Clark	\$55,000 (excluding superannuation) (before tax) per annum 755,035 Options

Note: See Section 6.13 for further information.

6.7 Advisory Board member's remuneration

The Advisory Board members (other than Yair Seroussi) do not receive cash as part of their engagement with the Company. Yair Seroussi receives ILS 40,000 (approximately \$14,800) gross per annum in his capacity as an Advisory Board member.

The Advisory Board members are to be issued Options under the Share Option Plan. See Section 6.13 for further information.

6.8 Directors indemnity, insurance and access

The Company has entered a deed of indemnity, insurance and access with each Director customary for an ASX listed company.

Under the deed, the Company undertakes to:

- indemnify the Director in respect of certain liabilities incurred by the Director while acting as a director;
- to arrange insurance for the benefit of the Director against certain risks to which the Director is exposed as a director; and
- to regulate in certain respects the right of access the Director has to the Company's records.

6.9 Directors' Security holdings

The Directors are not required by the Constitution to hold any Shares. On Completion of the Offer, the Directors will hold the Shares set out below either personally, or through entities associated with the Director (excluding any Shares applied for under the Offer). Some of these shares will be subject to escrow or trust arrangements.

6. Key People, Interests and Benefits

6.9 Directors' Security holdings *continued*

The Directors are entitled to apply for Shares under the Offer (which such Shares purchased under the offer are not listed below). The Directors' holdings immediately prior to Completion of the Offer, and that are expected to be acquired in the Offer and held on Completion of the Offer is outlined below, including incoming and outgoing Directors' holdings. Final Directors' Shareholdings will be notified to the ASX before listing on ASX.

Director	Notes	Shareholding (prior to Completion of the Offer)	Performance Options expected to be received under the Share Optio Plan	Options expected to be received under the Share Option Plan or otherwise	Shares expected to be acquired under the Offer	Expected Shareholding (post Completion of the Offer) (Minimum Subscription)	Expected Shareholding (post Completion of the Offer) (Maximum Subscription)
Haggai Alon	1	5,135,949	5,000,000	Nil	Nil	5.55%	5.14%
Ed Hofland	2	10,668,099 (8,902,311 50% of Energy Ketura Cooperative Agricultural Society Ltd and 1,765,788 Kibbutz Ketura ACS)	5,000,000	Nil	Nil	1.91% (Kibbutz Ketura ACS) 9.63% (50% of Energy Ketura Cooperative Agricultural Society Ltd)	1.77% (Kibbutz Ketura ACS) 8.9% (50% of Energy Ketura Cooperative Agricultural Society Ltd)
David Rosenblatt	3	9,675,149 (8,902,311 50% of Energy Ketura Cooperative Agricultural Society Ltd and 772,838 Security Matters Investments LLC)	5,000,000	Nil	Nil	9.63% (50% of Energy Ketura Cooperative Agricultural Society Ltd) 0.84% (Security Matters Investments LLC)	8.9% (50% of Energy Ketura Cooperative Agricultural Society Ltd) 0.77% (Security Matters Investments LLC)
Amir Bader	4	10,374,617 (Degania A Business Agricultural Cooperative Society Ltd)	Nil	1,382,322 (Degania A Business Agricultural Cooperative Society Ltd)	Nil	11.22%	10.37%
Jovanka Naumoska	5	Nil	Nil	Nil	Nil	Nil	Nil
Dr Gregory Clark	5	Nil	Nil	775,035	Nil	Nil	Nil

Notes:

- Haggai Alon's (Director/CEO of the Company) securities are held by Benguy Escrow Company Ltd. (as escrow agent);
- Ed Hofland (Director of the Company) is a member of Kibbutz Ketura. Kibbutz Ketura holds shares through Kibbutz Ketura ACS and holds 50% of Energy Ketura Cooperative Agricultural Society Ltd;
- David Rosenblatt (Director of the Company) controls Security Matters Investment LLC (a private company incorporated in the United States) and holds 50% of Energy Ketura Cooperative Agricultural Society Ltd;
- Amir Bader (Director of the Company) is a member of Kibbutz Degania A, owner of Degania A Business Agricultural Cooperative Society Ltd;
- Dr Gregory Clark and Jovanka Naumoska will be issued Shares or Options post Listing; and
- See Section 7.4 for further information relating to the Performance Options.

6. Key People, Interests and Benefits

6.10 Agreements with Directors or Related Parties

The Company's policy in respect of related party arrangements is:

- a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

The Company has entered into certain related party arrangements, as described in Section 10.3, being:

- the share sale agreement between the Company and Security Matters Israel in relation to the Security Matters Israel Acquisition as set out in Section 10.4;
- the Isorad Licence Agreement as set out in Section 3.16(c);
- the Kafrit Collaborative Agreement as set out in Section 10.7;
- the Jindalee Partners agreement as set out at Section 10.6;
- the Convertible Note agreements set out in Section 10.15;
- the Lead Manager Mandate as set out in Section 10.12;
- the Finder Fee Agreement as set out in Section 10.17;
- the compensation arrangements with Directors, Advisory Board members and consultants as set out in Section 6; and
- the indemnification, insurance and access arrangements with Directors as set out in this Section 6.8.

6.11 Other information about Directors' interests and benefits

Directors may also be reimbursed for all reasonable out of pocket expenses incurred in carrying out their duties as a Director. Non-executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as Director of the Company or its Subsidiaries.

There are no retirement benefit schemes for Directors, other than pension contributions.

6.12 Senior Management's interests and remuneration

a) Chief Executive Officer

See Section 6.5 above.

b) Chief Financial Officer

Yonatan Musnikow is the Chief Financial Officer of the Company.

The key terms of Yonatan Musnikow's executive employment agreement with the Company are as follows:

- Yonatan is appointed as the CFO of the Company until the agreement is terminated;
- Yonatan is paid ILS 18,000 (approximately \$6,700) gross per month, plus expenses which are not expressed to include social benefits (such as sick leave, holidays or pension payments); and
- the contract is governed by Israeli law.

c) Chief Scientist

Dr Yair Grof is the Vice President and Chief Scientist of the Company and heads the Research and Development Physics Department.

The key terms of Dr Yair Grof's executive employment agreement with the Company are as follows:

- Dr Yair Grof is appointed as the Chief Scientist of the Company until the agreement is terminated;
- Dr Yair Grof is paid ILS 100,000 (approximately \$37,000) gross per month, plus expenses which are not expressed to include social benefits (such as sick leave, holidays or pension payments);
- Dr Yair Grof is entitled to a bonus of ILS 157,000 (approximately \$58,000) on the successful Listing of the Company due to achieving technology milestones;
- Dr Yair Grof is entitled to a bonus of ILS 200,000 (approximately \$74,000) upon the termination of his employment, subject to Dr Yair Grof conducting a comprehensive and detailed overview regarding all work performed by him during his term of employment with the Company, to be presented to any employee or consultant of the Company; and
- the contract is governed by Israeli law.

d) VP Global Product Manager

Dr Yifat Bareket is the VP Global Product Manager of the Company.

The key terms of Dr Yifat Bareket's executive employment agreement with the Company are as follows:

- Dr Yifat Bareket is appointed as the VP Global Product Manager of the Company until the agreement is terminated;
- Dr Yifat Bareket is paid ILS 52,000 per month (approximately \$19,000), plus expenses which are not expressed to include social benefits (such as sick leave, holidays or pension payments); and
- The contract is governed by Israeli law.

6. Key People, Interests and Benefits

6.12 Senior Management's interests and remuneration *continued*

e) Company Secretary

The Company has employed the services of Mark Licciardo of Mertons Corporate Services Pty Ltd. Mark has significant experience as a professional corporate secretary and is highly experienced in dealing with continuous disclosure requirements and reporting obligations for ASX listed entities.

Mertons Corporate Services Pty Ltd has been appointed by the Company on a fixed monthly engagement fee of \$3,760 excluding GST.

f) Senior management service agreements

Each senior manager in the Company has entered into an executive employment agreement with the Company, which is governed by Israeli law.

These generally establish:

- base salary and a fixed amount of overtime compensation;
- a mandatory pension contribution;
- notice and termination provisions;
- restraint of trade provisions (for a 24 month period), and payment of a certain amount of non-compete consideration (the restraints may not be enforceable under Israeli law);
- certain employees are entitled to bonus compensation in accordance with industry standards;
- provisions protecting the Company's confidential information and intellectual property; and
- for employees, leave entitlements as per the applicable legislation.

6.13 Employee Share Option Plan

The Company has adopted an employee share option plan (**Share Option Plan**). The key terms of the Share Option Plan are:

- a) The Share Option Plan is intended 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.
- b) The Board or a committee appointed by the Board will administer the Share Option Plan.
- c) The persons eligible to participate in the Share Option Plan include any employees, directors and consultants of the Company or any subsidiary of the Company.
- d) Pursuant to the table below, the Company will be issuing a total of 8,805,864 Options under the Share Option Plan initially.
- e) The Company will comply with laws relevant in the jurisdiction in which a recipient lives, including initially appointing a trustee to hold the Options under the Share Option Plan for the recipients in Israel.
- f) The exercise price of the Options shall be determined by the Board.

g) Options issued under the Share Option Plan may be subject to adjustments where:

- i) the Company is separated, reorganised, merged, acquired or consolidated with or into another corporation, the Board may determine that any vesting conditions that have not yet been satisfied shall be accelerated so that any unvested options become immediately vested;
 - ii) a share dividend, share split, combination or exchange of shares, recapitalisation or any other like event, the options issued under the Share Option Plan shall be likewise adjusted;
 - iii) if all or a substantial portion of the Shares in the Company are sold under a merger or reorganisation, then the options under the Share Option Plan on issue will be accelerated to enable the holders to participate in the merger.
- h) Upon the termination of any holder's employment with the Company, any unvested options will immediately expire.
- i) Unless otherwise prescribed by the Board, upon the termination of a holder's employment with the Company, any vested options remain on issue in accordance with their terms, unless the employment is terminated by the Company for cause, or the termination is as a result of death or disability (in which case the options must be exercised within 12 months from the effective date of termination).
 - j) Options issued under the Share Option Plan are generally not transferable.
 - k) The Share Option Plan shall remain effective for the period of 10 years from the date of its adoption.
 - l) The Board of the Company may alter or amend the Share Option Plan at any time, except that no amendment shall be made which would impair the rights of the holder of any options already granted.
 - m) The Share Option Plan remains subject to the laws in any jurisdiction in which the Company operates and any rules imposed by ASX.

The Options to be issued to the Advisory Board members and Dr Gregory Clark are subject to the following further terms:

- a) the exercise price of the Option is the Offer Price;
- b) 50% of the Options vest after 12 months from the date of issue;
- c) 50% of the Options vest after 24 months from the date of issue; and
- d) the Options have a 5 year term.

6. Key People, Interests and Benefits

6.13 Employee Share Option Plan *continued*

The Board has approved 8,805,864 Options to be issued under the Share Option Plan at Listing:

Options recipient	Relationship to Company	Number of options
Dr Yair Grof	Chief Scientist	1,545,587
Dr Tzemach Kislev	Consultant	554,532
Dr Nadav Yoran	Head of IP, Algorithm and Blockchain	553,387
Dr Yifat Bareket	VP Product Development	1,098,180
Dr Dimtry Docenko	Employee	162,693
Dr Michal Firstenberg	Employee	162,693
Avital Trachtman	Employee	162,693
Mor Kaplinski	Employee	162,693
Major General Ami Shafran	Advisory Board Member (Chairman)	829,507
Yair Seroussi	Advisory Board Member	755,035
Leon Kempler	Advisory Board Member	755,035
John Poynton	Advisory Board Member	755,035
Yigal Arnon & Co	Consultant (Israeli legal advisor)	188,759
Isorad	Consultancy services in relation to the Isorad Licence Agreement and Existing Shareholder (Le'mofet Holdings 2000 Ltd holds shares as trustee for Isorad Ltd)	365,000
Dr Gregory Clark	Non-executive Director	755,035
Total		8,805,864

6.14 Israeli tax implications for Share Option Plan

Israeli tax laws stipulate that any benefit granted to an employee by the employer is taxed at the date of the grant as an ordinary income of the employee (and deducted at source by the employer, who may be liable to the tax of the employee if it did not duly deduct at source and paid the amount to the Tax Authority).

The Israeli Tax Ordinance recognizes the employee stock options mechanism and enables, under certain circumstances, a deferral of tax payments. Generally, if the options (and shares to which the options were converted) are held for at least two years by a trustee approved by the Israeli Tax Authority, Section 102 of the Israeli Tax Ordinance defers the tax liability of the employee until the date on which the shares (resulting from the conversion of the options) are sold (or the date of release from the trustee, the earlier of). The Section 102 arrangement applies only to an employee or director who holds less than 10% of the issued and outstanding share capital of the company on a fully diluted basis (and qualifies under other defined terms). If employees or directors do not qualify for the Section 102 arrangement, Section 3(9) of the Tax Ordinance applies, in which case the holding with the trustee may defer the tax liability until exercise of the options.

6.15 Interests of advisers

The Company has engaged the following professional advisers in relation to the Offer:

- RM Corporate Finance Pty Ltd ACN 065 412 820, (AFSL 221938) have acted as Lead Manager to the Offer. The Company has paid or agreed to pay the Lead Manager the fees described in Section 10.12 for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, other than as disclosed in this Prospectus, the Lead Manager has not received fees from the Company for other services provided to the Company;
- Holding Redlich has acted as Australian legal adviser in relation to the Offer. The Company has paid, or agreed to pay, up to \$180,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Holding Redlich in accordance with its normal time-based charges. During the 24 months preceding lodgement of this Prospectus with ASIC, Holding Redlich has not received fees from the Company for other services provided to the Company;
- Afik & Co., Attorneys and Notary has acted as Israeli legal adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately \$75,000 (excluding disbursements and VAT) for these services up until the Prospectus Date.

6. Key People, Interests and Benefits

6.15 Interests of advisers *continued*

- BDO Corporate Finance has acted as Investigating Accountant and has prepared the Investigating Accountant's Report included in Section 8 of this Prospectus and has performed work in relation to due diligence enquiries in connection with the Offer. The Company has paid, or agreed to pay, approximately \$40,000 (excluding disbursements and GST) for the above services up until the Prospectus Date. During the 24 months preceding lodgement of this Prospectus with ASIC, BDO Corporate Finance has not received fees from the Company for other services provided to the Company;
- BDO Ziv Haft has provided taxation advice to the Company in connection with the Offer. The Company has paid, or agreed to pay approximately \$19,000 (excluding disbursements and VAT) for the above services up until the Prospectus Date. During the 24 months preceding lodgement of this Prospectus with ASIC, BDO Ziv Haft has not received fees from the Company for other services provided to the Company, aside for fees as auditor;
- BDO Ziv Haft has acted as the Company's auditor and has prepared the audited financial information contained in the Investigating Accountant's Report which is included in Section 8 of this Prospectus. The Company has paid, or agreed to pay, approximately \$88,000 (excluding disbursements and VAT) for these services up until the Prospectus Date. During the 24 months preceding lodgement of this Prospectus with ASIC, BDO Ziv Haft has not received fees from the Company for other services provided to the Company, aside for taxation advice;
- Boardroom Pty Limited has acted as the Share Registry to the Company. The Company has paid, or agreed to pay, normal commercial rates for the share registry services provided by Board Room Pty Ltd;
- Reinhold Cohen Group has provided the Patent Report to the Company. The Company has paid, or agreed to pay, approximately \$5,500 (excluding disbursements and GST) for those services; and
- Mark Licciardo of Mertons Corporate Services Pty Ltd has acted as the Company's company secretary. The Company has paid, or agreed to pay, normal commercial rates for the company secretarial services provided by Mertons Corporate Services Pty Ltd.

The Lead Manager or its affiliates from time to time may in the future perform other investment banking and financial advisory services for the Company, Shareholders or their respective affiliates. Further, in the ordinary course of their trading, brokerage and financing activities, the Lead Manager and their affiliates may buy or sell securities issued by the Company or associated derivatives as principal or agent. Customary fees and commissions are expected to be paid for any such services in the future.

These amounts, and other expenses of the Offer, will be paid out of funds raised under the Offer or available cash (unless otherwise indicated). Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.

6.16 Corporate Governance

a) Overview

This Section explains how the Board will oversee the management 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 financial 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 financial 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, officers 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 Company is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released the ASX Recommendations for ASX-listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptive, but guidance. However, under the ASX Listing Rules, the Company will be required to provide a statement in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period.

The main policies and practices adopted by the Company, which will take effect from ASX listing, are summarised below. In addition, many governance elements are contained in the Constitution. Details of the Company's key policies and practices and the charters for the Board and each of its committees will be available from Listing at <https://www.securitymattersltd.com/>.

Except as set out below, the Board does not anticipate that it will depart from the ASX Recommendations; however, it may do so in the future if it considers that such a departure would be reasonable:

- i) Recommendation 1.5 of the ASX Recommendations states that the board of a listed entity should have a diversity policy where a relevant committee sets measurable objectives for achieving gender diversity;
- ii) Recommendation 2.1 of the ASX Recommendations states that the board of a listed entity should have a nomination committee;
- iii) Recommendation 2.2 of the ASX Recommendations states that the board of a listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board has or is looking to achieve;
- iv) Recommendation 2.4 of the ASX Recommendations states that the majority of the board of a listed entity should be independent directors;

6. Key People, Interests and Benefits

6.16 Corporate Governance *continued*

- v) Recommendation 2.5 of the ASX Recommendations states that the chair of the board of a listed entity should be an independent director;
- vi) Recommendation 4.1 of the ASX Recommendations states that the board of a listed entity should have an audit committee;
- vii) Recommendation 7.1 of the ASX Recommendations states that the board of a listed entity should have a committee to oversee the entity's risk; and
- viii) Recommendation 8.1 of the ASX Recommendations states that the board of a listed entity should have a remuneration committee.

In light of the Company's size and nature, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the establishment of committees and additional corporate governance policies and structures will be reviewed.

6.17 Independence of Directors

In determining whether a Director is "independent", the Board has adopted the definition of this word in the ASX Recommendations. Consequently, a Director will be considered "independent" if that Director is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by-case basis, with the Board Charter to assist in this regard. The Board will regularly review the independence of each Director in light of interests disclosed to the Board and will disclose any change to the ASX, as required by the ASX Listing Rules.

The Board considers that the two non-executive Australian Directors, being Jovanka Naumoska and Dr Gregory Clark, are 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.

6.18 Board Charter

The Company has approved a Board Charter to apply on Listing. The Board Charter sets out:

- the composition and operation of the Board;
- the roles and responsibilities of the Board, Chair, company secretary, committees and management; and
- the delegation of authority by the Board to management and Board committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance;
- optimise the Company's performance and build sustainable value for Shareholders;
- set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards); and
- ensure that Shareholders are kept informed of the Company's performance and major developments.

Matters which are specifically reserved for the Board or its committees include:

- appointment of a Chair;
- appointment and removal of the Executive Chairman, CEO and company secretary;
- ratifying the appointment and removal of senior executives;
- approving the remuneration policies and framework and determining whether the remuneration and conditions of service of senior executives are appropriate and consistent with the approved remuneration policies and framework;
- establishing and monitoring succession planning;
- setting the specific limits of authority for management;
- calling meetings of Shareholders; and
- approving criteria for assessing performance of senior executives and monitoring and evaluating their performance.

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 financial 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.

6. Key People, Interests and Benefits

6.19 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

Under the Board Charter, Board committee performance evaluations will occur annually.

a) Audit and Risk Committee

Pursuant to the Company's Risk Management Policy, the Company will, at the appropriate time, establish an Audit and Risk Committee which will be governed by the Audit and Risk Committee Charter established by the Board, which is subject to review by the Board from time to time.

Under its charter, the Audit and Risk Committee must have at least 3 members, a majority of whom (including the chair) must be independent and all of whom are non-executive directors. The roles of the Audit and Risk Committee are to:

- i) oversee the Company's process of internal control structure, continuous disclosure, financial and non-financial risk management systems, and compliance and external audit;
- ii) provide advice to the Board and reports on the status and management of the risks to the Company, to ensure that risks are identified, assessed and appropriately managed:
 - A) monitoring the Company's compliance with laws and regulations and the Company's codes of conduct and ethics; and
 - B) encouraging effective relationships with, and communication between, the Board, management and the Company's external auditor.

The Board has adopted a policy regarding the services that the Company may obtain from its auditor. It is the policy of the Company that its external auditor:

- iii) must be independent of the Company and the Directors and senior executives. To ensure this, the Company requires a formal confirmation of independence from its external auditor on an annual basis; and
- iv) may not provide services to the Company that are, or are perceived to be, materially in conflict with the role of the external auditor. Non-audit or assurance services that may impair, or appear to impair, the external auditor's judgement or independence are not appropriate. However, the external auditor may be permitted to provide additional services which are, and are not perceived to be, materially in conflict with the role of the auditor, if the Board or Audit and Risk Management Committee has approved those additional services.

b) Remuneration and Nomination Committee

Pursuant to the Company's Remuneration and Nomination Committee Charter, the Company will establish, at the appropriate time, a Remuneration and Nomination Committee, which is subject to review by the Board from time to time.

Under its charter, the Remuneration and Nomination Committee must have at least 3 members, a majority of whom (including the chair) must be independent Directors and all of whom must be non-executive Directors. In accordance with its charter, it is intended that at least one member will have expertise in remuneration. The main functions of the Remuneration and Nomination Committee are to assist the Board with a view to establishing a Board of effective composition, size, diversity, experience and commitment to adequately discharge its responsibilities and duties, and assist the Board with a view to discharging its responsibilities to Shareholders and other stakeholders to seek to ensure that the Company:

- i) has coherent remuneration policies and practices which enable the Company to attract and retain executives and Directors who will create value for Shareholders, including succession planning for the Board and executives;
- ii) fairly and responsibly remunerate Directors and executives, having regard to the performance of the Company, the performance of the executives and the general remuneration environment;
- iii) has policies to evaluate the performance of the Board, individual Directors and executives on (at least) an annual basis; and
- iv) has effective policies and procedures to attract, motivate and retain appropriately skilled and diverse persons to meet the Company's needs.

The Remuneration and Nomination Committee will meet as often as is required by its Charter or other policy approved by the Board to govern the operation of the Committee. Following each meeting, the Committee will report to the Board on any matter that should be brought to the Board's attention and on any recommendation of the Committee that requires Board approval.

6.20 Corporate Governance Principles and Policies

a) Code of conduct

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 take effect from listing on the ASX, 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.

b) Risk management policy

The identification and proper management of the Company's risks are an important priority of the Board. The Board has adopted a Risk 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.

6. Key People, Interests and Benefits

6.20 Corporate Governance Principles and Policies *continued*

c) Remuneration arrangements

Under the Constitution, the Directors decide the total amount paid to each Director as remuneration for their services as a Director to the Company (this may be in addition to any other remuneration paid to the Director whom may also be an officer or employee of the Company). The Directors may also choose for their remuneration to be determined by shareholders. The Company must reimburse the Directors for their reasonable expenses incurred. If a Director performs any services for the Company in the opinion of the Directors outside the ordinary duties of a Director, that Director may be paid remuneration fixed by the Directors.

However, under the ASX Listing Rules, the total amount paid to all non-executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company at a general meeting. Total annual Directors' fees currently agreed to be paid by the Company to its non-executive Directors are \$300,000. These fees are inclusive of fees in respect of service on the various Committees. The Directors' fees do not include a commission on, or a percentage of, profits or income.

The Board is also responsible for, in its sole discretion, determine those Directors, employees and consultants, if any, to whom Options are to be awarded under the Share Option Plan.

The Board is also responsible for approving the remuneration policies and framework and determining whether the remuneration and conditions of service of senior executives are appropriate and consistent with the approved remuneration policies and framework.

d) Securities trading policy

The Company has adopted a Securities Trading Policy which will apply to the Company and its Directors, officers, employees and senior management, including those persons having authority and responsibility for planning, directing and controlling the activities of the Company, whether directly or indirectly.

The Securities Trading Policy is intended to explain the types of conduct in relation to dealings in the securities of the Company that is prohibited and establish procedures in relation to Directors, senior management or employees dealing in the securities.

Subject to certain exceptions, including exceptional financial circumstances, the Securities Trading Policy defines certain "closed periods" during which trading in securities of the Company by the Directors, officers and certain employees is prohibited.

Outside of these periods, Directors, senior management and certain employees must receive clearance for any proposed dealing in securities of the Company. In all instances, buying or selling securities of the Company is not permitted at any time by any person who possesses price-sensitive information concerning the Company.

e) Disclosure and Communication Policy

Once listed, the Company will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, the Company will be required to immediately disclose to the ASX any information concerning the Company which is not generally available and which, if it was made available, a reasonable person would expect to have a material effect on the price or value of the Company's securities, once the Company is aware of such information. The Company is committed to observing its continuous disclosure obligations under the ASX Listing Rules and the Corporations Act.

The Company has adopted a Disclosure and Communication Policy to take effect from ASX listing, which establishes procedures to ensure that Directors and senior management are aware of, and fulfil their obligations in relation to continuous disclosure, including the timely, full and accurate disclosure of material price-sensitive information when required. The Disclosure and Communication Policy also sets out procedures for communicating with Shareholders, the media and the market. Under the Disclosure and Communication Policy, the Disclosure and Communication Committee Company Secretary will be primarily responsible for managing the Company's compliance with its continuous disclosure obligations, with the Company Secretary responsible for Shareholder, media and market communications. The Board will carry out the functions for the Disclosure and Communication Committee until the Board considers it appropriate to establish the committee.

f) Communications with Shareholders

The Board aims to ensure that Shareholders are provided with sufficient information to assess the performance of the Company and that Shareholders are properly informed of all major developments affecting the affairs of the Company. The Company is required by law to communicate to Shareholders through the lodgement of all relevant financial and other information with the ASX and publishing information on the Company's website, <https://www.securitymattersltd.com/>.

The Company's website will also contain information about the Company, including media releases, key policies and the charters of Board committees.

7. Details of the Offer

7.1 The Offer

The Company is undertaking an Offer of 25,000,000 (and up to 32,500,000 shares) at \$0.20 per Share to raise \$5 million with the capacity to go up to \$6.5 million before costs. The Shares issued under this Prospectus will represent approximately 27.03% of Shares on issue upon Completion of the Offer assuming that the Minimum Subscription is raised but that no Options are exercised or approximately 32.50% of Shares on issue upon Completion of the Offer assuming that the Maximum Subscription is raised but that no Options are exercised.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus. All Shares will rank equally with each other.

The Offer is made to raise the necessary funds required by the Company and will be applied towards the Company's working capital requirements as set out in Section 7.3. No funds will be raised under the Prospectus other than in relation to the Offer.

Please refer to the Important Dates on page 9 of the Prospectus for the Opening Date and Closing Date for the Offer and please refer to Section 7.12 for details on how to apply for Shares pursuant to the Offer.

7.2 Purpose of the Offer

The purpose of the Offer is to:

- facilitate the Company's application for admission to the Official List of the ASX;
- raise no less than \$5 million (before deduction of costs) with the capacity to accept up to \$6.5 million (before deduction of costs) pursuant to the Offer; and
- provide a liquid market for Shares and an opportunity for new Shareholders to invest in the Company.

A summary of the budgeted intended use of the funds is set out in Section 7.3 below.

7.3 Use of Offer proceeds

The total gross proceeds of the Offer will be equal to the number of Shares issued under the Offer multiplied by the Offer Price.

The funds raised under the Offer, plus current cash reserves, are expected to be allocated over the first 24 months following Listing as follows:

Proposed Use of Funds	\$5 million raise		\$6.5 million raise	
	Year 1 (\$)	Year 2 (\$)	Year 1 (\$)	Year 2 (\$)
Sales and marketing costs	133,214	213,721	192,929	360,468
Personnel	85,714	157,671	138,429	296,143
Other costs	47,500	56,050	54,500	64,325
Research and Development of Technology	484,500	502,640	684,900	909,400
Reader development	240,500	211,640	314,500	407,000
Marker bank development	208,000	234,000	322,400	426,400
Blockchain adjustments	36,000	57,000	48,000	76,000
Expenses of the offer	897,274	—	1,006,256	—
Lead Manager	381,813	—	474,063	—
Legal costs	255,000	—	255,000	—
Royalty payment to Isorad	50,000	—	65,000	—
ASX Fees	92,565	—	94,298	—
Investigating Accountant and Taxation fees	58,919	—	58,919	—
Other costs (including costs of design, printing and flights)	58,977	—	58,977	—
Payment of shareholder loan	357,143	357,143	357,143	357,143
Corporate overheads (G&A)	487,296	529,090	499,071	541,454
Salaries	348,571	383,429	348,571	383,429
Professional services and office expenses	66,725	70,061	78,500	82,425
Legal and professional expenses	72,000	75,600	72,000	75,600
Total	2,359,427	2,772,445	2,740,299	3,904,186

7. Details of the Offer

7.3 Use of Offer proceeds *continued*

The Directors believe that the Company's current cash reserves plus the net proceeds of the Offer will be sufficient to fund the Company's key objectives as set out in this Prospectus through to August 2020.

The Company projects that it will have at least \$1.5 million in funds 12 months following the Listing.

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events (including commercialisation success or failure) and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis. It should also be noted that there may be differences between estimated and actual costs, because events and circumstances frequently do not occur as expected and those differences may be material. In this regard, you should read carefully and consider the risk factors set out in Section 5 of this Prospectus.

7.4 Performance Options

The Company will issue Performance Options under the Company's Share Option Plan to the following persons:

Recipient	Nominee	Number	Rationale
Haggai Alon	Benguy Escrow Company Ltd. (as escrow agent)	5,000,000	Chief Executive Officer
Ed Hofland	Kibbutz Ketura ACS	5,000,000	Executive Chairman
David Rosenblatt	Security Matters Investment LLC	5,000,000	Executive Director, Vice Chairman

A summary of the terms of the Performance Options is set out in Section 10.13.

7.5 Options

The Company will issue 4,000,000 Options to the following Existing Shareholders:

Recipient	Number	Rationale
Degania A Business Agricultural Cooperative Society Ltd.	1,382,322	Certain Existing Shareholders will be issued Options by the Company in recognition of their support of the Company and services provided to the Company.
Kibbutz Yizrael Holdings 2004 ACS	283,112	
Kafrit Industries (1993) Ltd.	174,794	
Menachem Elyahu Haram	501,833	
Pinni Meidan	501,833	
Aaron Lev	456,212	
Kibbutz Kefar Glikson Holdings ACS	353,825	
Isorad (Le'Mofet Holdings 2000)	62,957	
Kibbutz Magen ACS	283,112	

A summary of the key term of the Options issued to Existing Shareholder is set out in Section 10.14.

7.6 Noteholders

The Company has raised capital in order to finance the IPO in the form of Convertible Notes, totalling \$1.68 million. The securities issued as part of the pre-IPO capital raise are convertible notes.

No Noteholder will, upon the conversion of the Notes and the issue of Shares, hold more than 1.5% of the shares in the Company, assuming minimum subscription.

A summary of the key term of the Convertible Notes is set out in Section 10.15.

7.7 Lead Manager

On Completion of the Offer, the Company will issue to the Lead Manager Options equal to 5% of the fully diluted total Shares issued under the Offer. The Shares subject to these options if exercised would equate to approximately 5% of the market capitalisation of the Company following the Completion of the Offer (on a fully diluted basis). The Options will have a three year expiry and their exercise price will be \$0.30 (a 50% premium to the Offer Price).

The Company will issue 5,227,541 Options to the Lead Manager if the Minimum Subscription is raised and up to 5,602,541 Options to the Lead Manager if the Maximum Subscription is raised.

A summary of the Lead Manager's Mandate is set out in Section 10.12.

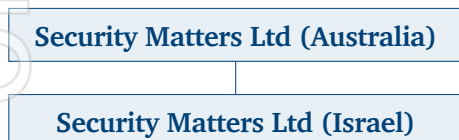
7. Details of the Offer

7.8 Existing Shareholders

Following the Completion of the Security Matters Israel Acquisition and Completion of the Offer, Existing Shareholders will hold 60% of the Company's share capital if the Minimum Subscription is raised (assuming no Options are exercised) and 55.5% of the Company's share capital if the Maximum Subscription is raised (assuming no Options are exercised).

7.9 Corporate structure of Security Matters

The structure of the Security Matters Group as at Completion of the Offer will be:



The Company has no other subsidiaries other than Security Matter Israel which itself has no subsidiaries.

7.10 Substantial Shareholders:

Those Shareholders holding or controlling 5% or more of the Shares on issue following Completion of the Offer are set out below:

Name	Relationship to Company	Number of Shares ¹	Minimum Subscription (approximate % of Shares post-Offer) ²	Maximum Subscription (approximate % of Shares post-Offer) ²
Energy Ketura Cooperative Agricultural Society Ltd	Ed Hofland and David Rosenblatt are directors representing Energy Ketura Cooperative Agricultural Society Ltd	17,804,623	19.25%	17.80%
Degania A Business Agricultural Cooperative Society Ltd	Amir Bader is a director representing Degania A Business Agricultural Cooperative Society Ltd	10,374,617	11.22%	10.37%
Benguy Escrow Company Ltd	Haggai Alon's Shares are held by Benguy Escrow Company Ltd	5,135,949	5.55%	5.14%
Company	The Company will be considered a substantial shareholder due to its agreement with certain Existing Shareholders and Note holders to voluntarily escrow their Shares for up to a 2 year period.	18,105,244	19.57%	18.11%
David Rosenblatt	Executive Director	9,675,149	10.49%	9.67%

1) Assuming that these Shareholders do not subscribe for Shares under the Offer.

2) Assuming that no Options or Performance Options have been exercised.

3) David Rosenblatt (Director of the Company) controls Security Matters Investment LLC (a private company incorporated in the United States) and holds 50% of Energy Ketura Cooperative Agricultural Society Ltd.

The Company will announce to the ASX details of its top 20 Shareholders (following completion of the Offer) prior to the Shares commencing trading on ASX.

7.11 Financial and other information about Security Matters

The Company's Pro Forma Historical Statement of Financial Position following Completion of the Offer, including details of the pro forma adjustments, is set out in Section 4.

The Company's capitalisation and indebtedness before and following Completion of the Offer are set out in Section 4.

The Directors believe that, on Completion of the Offer, the Company will have sufficient funds available to fulfil the purposes of the Offer and meet its stated business objectives.

7.12 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in Security Matters Limited ACN 626 192 998).
What are the rights and liabilities attached to the Shares being offered?	A description of the Shares, including the rights and liabilities attaching to them is set out in Section 7.20.

7. Details of the Offer

7.12 Terms and conditions of the Offer *continued*

Topic	Summary
What is the consideration payable for the Shares?	The Offer Price is \$0.20 per Share.
What is the Offer period?	The Important Dates, including the details of the Offer period, are set on page 03 of the Prospectus.
What are the cash proceeds to be raised?	A minimum of \$5 million and up to \$6.5 million.
What is the minimum and maximum Application size under the Offer?	The minimum Application size under the Offer is \$2,000, being an Application for 10,000 Shares, then in multiples of \$500. There is no maximum Application size under the Offer.
How to pay?	Applicants under the Offer must pay their Application Monies in accordance with instructions on the Application Form.
What is the allocation policy?	The allocation of Shares under the Offer will be determined by agreement between the Company and Lead Manager.
When will I receive confirmation whether my Application has been successful?	It is expected that initial holding statements will be mailed by standard post on or about 7 September 2018.
Will the Shares be quoted?	<p>The Company will apply for admission to the Official List of the ASX and quotation of Shares on ASX under the code "SMX"</p> <p>Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable.</p> <p>The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by us from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit us to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.</p>
When are the Shares expected to commence trading?	<p>It is expected that trading of the Shares on the ASX will commence on 18 September 2018. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk.</p> <p>The Company, the Share Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, even if such person received confirmation of allocation from the Share Registry, by a Broker or otherwise.</p>
Is the Offer underwritten?	The Offer is not underwritten.
Are there any escrow arrangements?	Yes. Details are provided in Section 7.14.
Have any ASX confirmations been obtained or relied on?	Yes. Details of the ASX confirmations are provided at Section 7.18.
Have any ASIC modifications been obtained or relied on?	No
Are there any taxation considerations?	Yes. Please refer to Section 10.21 and note it is recommended that all potential investors consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.
Are there any brokerage, commission or stamp duty considerations?	<p>No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.</p> <p>See Section 10.12 for details of various fees payable by the Company to the Lead Manager.</p>
What should I do with any enquiries?	<p>Enquiries in relation to this Prospectus may be directed to the Lead Manager RM Corporate Finance, Att: Nathan Barbarich, Head of Corporate Finance on +61 8 6380 9200 or nbarbarich@rmcf.com.au</p> <p>If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.</p>

7. Details of the Offer

7.13 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit an offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold in the United States except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act laws and any other applicable securities laws.

Each Applicant will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States;
- it is not in the United States;
- it has not and will not send the Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia.

7.14 Acknowledgements

Each Applicant under the Offer will be deemed to have:

- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) accompanying the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- acknowledged that once the Company receives an Application Form it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised the Company and the Lead Manager and their respective Officers or agents, to do anything on behalf of the Applicant(s) necessary for Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;

- acknowledged that, in some circumstances, the Company may not pay dividends;
- acknowledged that any dividends paid by the Company may be unfranked or only partially franked and that the unfranked portion of any such dividends may not attach conduit foreign income;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not investment advice or taxation advice or a recommendation that Shares are suitable for the Applicant(s), given the investment objectives, financial situation or particular needs of the Applicant(s); and
- declared that the Applicant(s) is/are a resident of Australia.

7.15 Restricted Securities

Subject to the Company being admitted to the Official List, certain Securities on issue prior to the Offer will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation.

No Shares issued to unrelated parties under the Offer are subject to escrow. However, certain Shares held by seed investors, related parties of the Company and promoters under the Offer will be subject to ASX imposed escrow for a period of up to 24 months following Official Quotation.

Options issued to the Lead Manager and related parties of the Company will also be subject to ASX imposed escrow for a period of up to 24 months following the date of issue.

Shares issued to Noteholders will be subject to ASX imposed escrow for a period of up to 24 months following the date of issue as well as voluntary escrow period of 12 months from date of issue for some of the Noteholders.

During the period in which these Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.

In addition to ASX imposed escrow, certain Existing Shareholders have also entered into or have agreed to enter into voluntary escrow agreements with the Company for a period of up to 24 months following Official Quotation. The number of Shares subject to voluntary escrow for a period of 24-months following Official Quotation is 18,105,244, being the number of Shares held by Existing Shareholders.

The Company will announce to the ASX full details (quantity and duration) of the Securities required to be held in escrow prior to the Shares commencing trading on ASX.

7.16 Discretion regarding the Offer

The Company may withdraw the Offer at any time before the issue or transfer of Shares to successful Applicants or bidders. If the Offer, or any part of it, does not proceed, all relevant application monies will be refunded (without interest).

The Company and the Lead Manager also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late applications or bids either generally or in particular cases, reject any application or bid, or allocate to any Applicant or bidder fewer Shares than applied or bid for.

7. Details of the Offer

7.17 ASIC relief

No ASIC relief or modification of the Corporations Act have been obtained or relied on.

7.18 ASX Confirmations and Waivers

The Company has received the following confirmations and waivers from the ASX as at the date of this Prospectus:

- a) that the Company's structure and operations are appropriate for a listed company under ASX Listing Rule 1.1, Condition 1 and ASX Listing Rule 1.19.
- b) that financial information to be given to ASX may be prepared (and accounts may be audited) in accordance with IFRS rather than in accordance with Australian accounting (or auditing) standards (ASX Listing Rule 19.11A);
- c) that no waiver of ASX Listing Rule 10.11 is required to the extent that Directors elect to participate in the Offer;
- d) that the Company is not required to advertise its allocation policy in newspapers;
- e) that the Company's Share Option Plan is acceptable to ASX;
- f) that Company's Constitution is acceptable to ASX; and
- g) that the terms and milestones that apply to the proposed Performance Options are appropriate and equitable under Listing Rule 6.1.

The Company has applied to the ASX for relief from ASX Listing Rule 9.1.3 on the basis that certain Shares will be issued to Existing Shareholders at completion of the Security Matters Israel Acquisition, and that such Existing Shareholders should be treated as seed capitalists in the Company and granted relief on a 'cash formula', and where relevant, 'look through' basis.

7.19 ASX listing, registers and holding statements

a) Application to ASX for listing and quotation of Shares

The Company will apply to the ASX for admission to the Official List and quotation of the Shares on the ASX (which is expected to be under the code SMX).

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription under this Prospectus.

If permission is not granted for the official quotation of the Shares on the ASX within three months after such application is made (or any later date permitted by law), all application monies received by the Company will be refunded without interest as soon as practicable.

Subject to certain conditions (including any waivers obtained by us from time to time), the Company will be required to comply with the ASX Listing Rules.

b) CHESS and issuer sponsored holdings

The Company will apply to participate in the ASX's Clearing House Electronic Sub-register System (**CHESS**) and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, being an electronic CHESS sub-register or an issuer sponsored sub-register. For all successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (**HIN**) for CHESS holders or, where applicable, the Shareholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their holding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored sub-register. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

c) Trading and selling Shares on market

It is expected that trading of the Shares on the ASX will commence on or about 18 September 2018.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. The Company, the Share Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Share Registry or confirmed your firm allocation through a Broker.

7. Details of the Offer

7.20 Description of Shares

a) Introduction

The rights and liabilities attaching to ownership of Shares are:

- detailed in the Constitution of the Company; and
- in certain circumstances, regulated by statute, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the official list of the ASX.

b) Voting at a general meeting

At a general meeting of the Company, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands.

On a poll, every member (or his or her proxy, attorney or representative) is entitled to one vote for each fully paid Share held.

c) Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the ASX Listing Rules. At least 28 days' notice of a meeting must be given to Shareholders.

d) Dividends

Subject to the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the Constitution, the Board may determine that a dividend is payable on Shares. The Board may fix the amount of the dividend, the time for determining entitlements to the dividend and the time and the method of payment of the dividend.

e) Transfer of Shares

Subject to the Constitution, Shares may be transferred by a proper transfer effected in accordance with the ASX Settlement Operating Rules, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules.

The Board may refuse to register a transfer of Shares where permitted to do so under the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules. The Board must refuse to register a transfer of Shares when required to by the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules.

f) Issue of further shares

Subject to the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules and any rights and restrictions attached to a class of shares, the Company may issue, or grant options in respect of, or otherwise dispose of, further shares on such terms and conditions as the Directors resolve.

g) Winding up

Subject to the Constitution, the Corporations Act and any special resolution or preferential rights or restrictions attached to any class or classes of shares, members will be entitled on a winding up to a share in any surplus assets of the Company in proportion to the Shares held by them.

h) Unmarketable parcels

Subject to the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, the Company may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

i) Share buy-backs

Subject to the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, the Company may buy back shares in itself on terms and at times determined by the Board.

j) Proportional takeover provisions

The Constitution contains provisions requiring Shareholder approval before any proportional takeover bid can proceed. These provisions will cease to apply unless renewed by special resolution of the Shareholders in a general meeting by the third anniversary of the date of the Constitution's adoption.

k) Variation of class rights

At present, the Company's only class of shares on issue is ordinary shares. Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:

- with the consent in writing of the holders of three-quarters of the issued shares included in that class; or
- by a special resolution passed at a separate meeting of the holders of those shares.

In either case, in accordance with the Corporations Act, the holders of not less than 10% of the votes in the class of shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such a variation or cancellation.

7. Details of the Offer

7.20 Description of Shares *continued*

l) Directors – appointment and removal

Under the Constitution, the minimum number of Directors that may comprise the Board is three and the maximum may not be more than 10. Directors are elected at general meetings of the Company.

The Directors may appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of the Company.

While the Company is admitted to the Official List, (unless appointed for a shorter term) each Directors shall serve in office until the third annual general meeting after the annual general meeting in which such Director was appointed, in which such later annual general meeting the Directors will be brought for re-election (or replacement). Notwithstanding this, in each AGM, only one Director whose service term lapsed will be brought for re-election, and all other Directors whose service term lapsed shall be deemed to have been re-elected for a term until the next AGM. The Director which is to be re-elected (a “Nominee”) shall be the Director that served the longest period since its appointment or last re-election or, if more than one Director served the longest time, at the Board of Directors meeting which sets the date and agenda for the AGM, the Board of Directors (acting by a simple majority) will decide which of such Directors will be brought for re-election at the relevant General Meeting.

m) Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the Chair of the meeting has a casting vote.

n) Directors – remuneration

The Directors, other than the executive Directors, shall be paid by way of fees for services, with the maximum aggregate sum approved from time to time by the Company in a general meeting or, until so determined, as the Board determines. The current maximum aggregate sum approved by the Board is \$300,000.

Any change to that maximum aggregate sum needs to be approved by Shareholders. The Constitution also makes provision for the Company to pay all reasonable expenses incurred by Directors in attending meetings or otherwise in connection with the business of the Company. Subject to the Corporations Act and the Constitution, remuneration of executive Directors shall be the amount that the Board decides.

o) Directors – powers and duties

The Directors have the power to manage the business of the Company and may exercise all powers which are not expressly required by law, the ASX Listing Rules or the Constitution to be exercised by the Company in a general meeting.

p) Indemnities

The Company, to the extent permitted by law, indemnifies each of its Directors and Secretaries (past and present) against any liability incurred by that person as an officer of the Company or one of its Subsidiaries and certain legal costs incurred by that person (on a solicitor-and-customer basis). The Company, to the extent permitted by law, may make a payment (whether by way of an advance, loan or otherwise) to a Director in respect of legal costs incurred by that person in defending an action for a liability of that person (on a solicitor-and-customer basis).

The Company, to the extent permitted by law, may pay, or agree to pay, a premium for a contract insuring any Director or Secretary of the Company or its Subsidiaries against any liability incurred by such person as an officer of the Company or its Subsidiaries and certain legal costs incurred by that person (on a solicitor-and-customer basis). The Company, to the extent permitted by law, may enter into an agreement or deed with a Director or a person who is, or has been, an officer of the Company or its Subsidiaries, under which the Company must do all or any of the following:

- keep books of the Company and allow either or both that person and that person’s advisers access to those books on the terms agreed;
- indemnify that person against any liability and certain legal costs incurred by that person (on a solicitor-and-customer basis);
- make a payment (whether by way of advance, loan or otherwise) to that person in respect of certain legal costs incurred by that person (on a solicitor-and-customer basis); and
- keep that person insured in respect of any act or omission by that person while an officer of the Company or a Subsidiary of the Company, on the terms agreed (including as to payment of all or part of the premium for the contract of insurance).

q) Amendment

The Constitution can only be amended by special resolution passed by at least three-quarters of the votes cast by Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of the Company.

8. Investigating Accountant's Report and Financial Services Guide



Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower 4
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099
AUSTRALIA

The Directors
Security Matters Ltd.
Level 8
555 Bourke Street
Melbourne Victoria 3000

24 July 2018

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT

Introduction

BDO Corporate Finance (East Coast) Pty Ltd ("**BDO Corporate Finance**") has been engaged by Security Matters Ltd ("**Security Matters**" or "**the Company**") to prepare this Investigating Accountant's Report ("**Report**") in relation to certain financial information of the Company, for the initial public offering of shares in the Company, for inclusion in a prospectus proposed to be issued on or about 24 July 2018 ("**Prospectus**").

Unless stated otherwise in this Report, expressions defined in the Prospectus have the same meaning in this Report.

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than that for which it was prepared.

Scope

You have requested BDO Corporate Finance to perform a limited assurance engagement in relation to the pro forma historical financial information described below and disclosed in the Prospectus.

The pro forma historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdiction other than Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

BDO Corporate Finance (East Coast) Pty Ltd ABN 70 050 038 170 AFS Licence No. 247 420 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (East Coast) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.



Pro Forma Historical Financial Information

You have requested BDO Corporate Finance to review the following pro forma historical financial information (the “Pro Forma Historical Financial Information”) of the Company included in the Prospectus:

- the pro forma historical consolidated Statement of Financial Position as at 31 December 2017.

The Pro Forma Historical Financial Information has been derived from the historical financial information of Security Matters Israel, after adjusting for the effects of pro forma adjustments described in section 4.5 of the Prospectus. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 4.2 of the Prospectus, as if those event(s) or transaction(s) had occurred as at the date of the historical financial information. Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position.

The Pro Forma Historical Financial Information has been compiled by the Company to illustrate the impact of the event(s) or transaction(s) described in Section 4.5 of the Prospectus on the Company's financial position as at 31 December 2017. As part of this process, information about Security Matters' financial position has been extracted by the Company from the financial statements of Security Matters for the period ended 31 December 2017.

The financial statements of Security Matters Israel for the period ended 31 December 2017 were audited by BDO Ziv Haft in accordance with International Standards on Auditing. BDO Ziv Haft issued an unqualified audit opinion on the financial report relating to those financial statements.

Directors' Responsibility

The directors of the Company are responsible for the preparation and presentation of the Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the historical financial information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express limited assurance conclusions on the Pro Forma Historical Financial Information, based on our limited assurance engagement. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included consideration of work papers, accounting records and other documents, including those dealing with the derivation of the Historical Financial Information of Security Matters from its audited financial statements for the years ended 31 December 2015, 31 December 2016 and 31 December 2017 respectively.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that

8. Investigating Accountant's Report and Financial Services Guide



we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the financial information.

Conclusions

Pro Forma Historical Financial information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information as described in section 4 of the Prospectus, and comprising:

- the pro forma historical consolidated Statement of Financial Position of the Company as 31 December 2017;

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4.2 of the Prospectus.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no material transaction or event outside of the ordinary business of the Company not described in the Prospectus, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence

BDO Corporate Finance is a member of BDO International Ltd. BDO Corporate Finance does not have any interest in the outcome of the proposed IPO other than in connection with the preparation of this Report and participation in due diligence procedures, for which professional fees will be received.

General Advice Warning

This Report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

Without modifying our conclusions, we draw attention to the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

BDO Corporate Finance has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report this consent has not been withdrawn. However, BDO Corporate Finance has not authorised the issue of the Prospectus. Accordingly, BDO Corporate Finance makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Prospectus.

8. Investigating Accountant's Report and Financial Services Guide



Financial Services Guide

Our Financial Services Guide follows this Report. This guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

A handwritten signature in black ink, appearing to read "M. Schiavello".

Mark Schiavello
Director and Representative

8. Investigating Accountant's Report and Financial Services Guide



FINANCIAL SERVICES GUIDE

Dated: 24 July 2018

This Financial Services Guide ('FSG') helps you decide whether to use any of the financial services offered by BDO Corporate Finance (East Coast) Pty Ltd ('BDO Corporate Finance, we, us, our').

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 247420
- Remuneration that we and/or our staff and any associates receive in connection with the financial services
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide financial product advice to retail and wholesale clients about securities and certain derivatives (limited to old law securities, options contracts and warrants). We can also arrange for customers to deal in securities, in some circumstances. Whilst we are authorised to provide personal and general advice to retail and wholesale clients, we only provide *general* advice to retail clients.

Any general advice we provide is provided on our own behalf, as a financial services licensee.

GENERAL FINANCIAL PRODUCT ADVICE

Our general advice is typically included in written reports. In those reports, we provide general financial product advice that is prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of the general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports. These fees are negotiated and agreed to with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. In this instance, the Company has agreed to pay us \$40,000 for preparing the Report.

Except for the fees referred to above, neither BDO Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of general advice.

All our employees receive a salary. Our employees are eligible for bonuses based on overall company performance but not directly in connection with any engagement for the provision of a report.

REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

ASSOCIATIONS AND RELATIONSHIPS

BDO Corporate Finance is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The general financial product advice in our report is provided by BDO Corporate Finance and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

COMPLAINTS RESOLUTION

Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints can be in writing, addressed to the Complaints Officer, BDO Corporate Finance, Level 11, 1 Margaret St, Sydney NSW 2001 or by telephone or email, using the contact details at the top of this FSG.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

If a complaint relating to general advice to a retail client is not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited (FOS). FOS is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Corporate Finance is a member of FOS (Member Number 11843).

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3
MELBOURNE VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 639

COMPENSATION ARRANGEMENTS

BDO Corporate Finance and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDO Corporate Finance or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDO Corporate Finance satisfy the requirements of section 912B of the Corporations Act 2001.

CONTACT DETAILS

You may provide us with instructions using the details set out at the top of this FSG or by emailing - cf.ecp@bdo.com.au.

BDO Corporate Finance (East Coast) Pty Ltd ABN 70 050 038 170 AFS Licence No. 247 420 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (East Coast) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability is limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

9. Patent Report



Reinhold Cohn & Partners

26A Habarzel St., Tel-Aviv 6971037, Israel
P.O.B. 13239, Tel-Aviv 6113102, Israel
Tel. +972 3 7109333 Fax. +972 3 5606405
info@rcip.co.il, www.rcip.co.il

July 22, 2018

SECURITY MATTERS LTD.
Kibbutz Ketura
D.N. Chevel Eilot 8884000
Israel

Dear Sirs,

Re: Patent Attorneys' Report
Our Ref: 238715-7

This report has been prepared for inclusion in the Prospectus of Security Matters Ltd. (hereinafter *Security Matters*).

Background

Reinhold Cohn Group is the largest, earliest established intellectual property firm in Israel offering premiere intellectual property expertise in filing, prosecution, renewals, protection, oppositions, opinions, due diligence, enforcement, litigation, licensing, commercialization and evaluation, portfolio management and strategic counseling in all areas of intellectual property such as patents, trademarks, designs, copyrights, plant breeders' rights, and other IP rights. The firm was established in 1934, and has a long history in servicing the intellectual property needs of both Israeli and overseas clients.

The Group includes the patent attorneys firm **Reinhold Cohn & Partners** and the law firm **Gilat, Bareket & Co.**

Reinhold Cohn Group and its team of professionals are internationally renowned for excellence and are continually ranked amongst the top tiers in leading international and local guides such as: Managing Intellectual Property (MIP), Expert Guides, Legal 500, Who's Who Legal, European Legal Experts, Chambers & Partners, IAM1000, IAM300, WTR1000, Corporate INTL, D&B Israel and BDI.

The **Reinhold Cohn Group** has expertise in the planning and implementation of optimized strategies for building up and protecting IP assets of its clients worldwide. Where an advantage can be gained, the group works in close collaboration with leading firms around the world.

Several of the Group's patent attorneys are qualified to represent clients before the United States Patent and Trademark Office. Additionally, the Group's patent attorneys and lawyers have wide-ranging expertise in the procurement and protection

9. Patent Report

– 2 –

of IP rights in developed markets as well as in emerging markets such as China, India and Brazil.

Executive Summary

Section 1 provides general comments on patent protection, patent procedures, and requirements for patentability.

Section 2 provides general comments regarding potential limitations of patent protection.

Section 3 describes the patent applications/registrations in which *Security Matters* has an interest.

Section 4 describes the limitations of this report.

Section 5 provides a statement of independence regarding preparation of this Report.

1. General Comments on Patent Protection

Patent rights constitute an important component of intellectual property, and provide protection for new, non-obvious and useful inventions for a limited period. Patents may be granted in respect of new or improved products, compositions and processes in almost all areas of current scientific, commercial and industrial activities. Patent rights are essentially national rights rather than trans-national rights. A patent must be obtained in each country where protection of an invention is required.

1.1 Patent Validity

A fundamental requirement of the patent system is that all patents are assessed for their validity. This happens during a process of examination of a patent application; a precursor to a granted patent. Validity of a patent application is assessed by a range of criteria.

Relevantly, all inventions must be ‘new’ at the time of lodging a patent application. Newness is judged in relation to what was publicly known or used at the date of the application. In addition, all inventions must display or possess a distinct inventive advance over what was previously known. This means that valid patent protection cannot be obtained for trivial or obvious developments.

A further requirement is that an invention must present suitable subject matter for the grant of a patent. For example, patent protection for gene technology, computer implemented technology and so-called “business method” inventions may be difficult to obtain.

1.2 Patent Process

Pursuant to the Paris Convention, the filing of an initial patent application in any member jurisdiction of the Paris Convention, for example in the U.S. or Israel, establishes a priority date for the invention(s) in all countries that are a party to this Convention, including countries such as Australia, Canada, New Zealand, Europe and

9. Patent Report

– 3 –

Japan. One of the usual steps towards obtaining a patent in the above and other patent jurisdictions (i.e., countries and regions) in respect of an invention begins by filing a first application (e.g., U.S. provisional patent application, U.S. Utility patent application, Israeli patent application). The filing of the first application establishes the priority date in respect of the invention(s) disclosed in the specification thereof. Within twelve months from the date of the filing of the first application, in order to obtain protection in other jurisdictions, the applicant may file separate national or regional patent applications in which patent protection is required. Alternatively, the applicant may file a single international application under the provisions of the Patent Cooperation Treaty (generally referred to as a ‘PCT’ application or an ‘International’ application) in which it is possible to designate countries or regions that are members of the PCT and in which patent protection is sought. The International application itself does not mature into a worldwide patent, but at the end of the international phase, steps must be taken to file the application into all of the national countries or regions designated in the original International application that are of interest to the applicant.

Regional patent applications, such as a European regional application, may also be filed. A European application may designate any or all countries that are a party to the European Patent Convention. The European patent application is processed centrally and in a single language and, if ultimately successful, can mature into a granted European patent, which must then be validated in each country in which protection is sought, some of which require translation into that country’s native language. The term ‘European patent’ thus actually constitutes a bundle of national patent rights, each of which can be enforced separately through national Courts.

All national and regional applications undergo a process of patent examination. It is during this process that the patent application is assessed for its validity. If during examination the validity of a patent application is challenged by a particular patent office, the applicant can file a response to that office either amending the claims or rebutting a patent office’s views of the application. Assuming that the patent applicant is able to overcome or address the questions concerning the validity of the application, the application will proceed to grant.

In some jurisdictions, like the European Patent Office, the U.S., Australia and Israel, once the application is accepted it is opened up for third party opposition. Assuming the application is not challenged by a third party or it survives a third party challenge, the application proceeds to becoming a granted patent.

In most of the jurisdictions, patent rights may be kept in force for a period of 20 years from the date of filing of the complete application on which the patent is granted, and while the patent is in force the owner has the exclusive right to exploit the invention.

2. Potential Limitations of Patent Protection

As noted above, in most of the jurisdictions, a patent application is subjected to examination for novelty and obviousness (and other grounds) before a patent is granted. There can be no assurance that each of the patent applications set out in Section 3 will result in the grant of a patent, or that the scope of protection provided by any granted patent will be identical to the scope of the application as originally filed or that the granted patent will effectively block competition. Furthermore, the scope of protection

9. Patent Report

– 4 –

provided by a granted patent in one jurisdiction may differ from that provided by a granted patent in another jurisdiction, due to differences in examination between countries and regions and scope of available protection.

It should be noted that the grant of a patent does not guarantee validity of that patent since it may be revoked by a court on the grounds of invalidity at any time during its life. If none of the claims of a granted patent are valid, then the patent is unenforceable. For example, relevant prior disclosures may be discovered that were not raised during examination, which may limit the scope of patent protection sought, perhaps to a very narrow field. In the preparation of this report, we have not assessed the likelihood that the pending applications will grant with commercially effective patent claims.

Further, it should also be noted that the granting of a patent does not guarantee that the patentee has freedom to operate the invention claimed in the patent. It may be that 'working' of a patented invention is prevented by the existence of another patent. In the preparation of this report, we have not assessed whether or not the commercialization of the technology embodied by the patent applications listed in Section 3 will infringe third party patent rights.

3. Patent Portfolio of *Security Matters*

For the purposes of the present Prospectus, *Security Matters* has requested that Reinhold Cohn summarize the status of patents and patent applications in which it has indicated that it has acquired an interest. Those patents and patent applications are set out in Section 3.1.

In preparing this Report, we have only been asked to confirm the status of the identified patents and patent applications. We have not looked into matters of infringement or right of *Security Matters* to the Intellectual Property Rights created by these patents and patent applications.

The status summary of patents and patent applications provided in this Report are correct to the best of our knowledge after conducting reasonable due diligence and research, at the date of this Report. The patents and patent applications set out in this Section are currently in force, although they are subject to the payment of periodic (mainly annual) fees in order to maintain them in force.

3.1 Summary of Patent Applications

Patent Family 1:

System and method for reading x-ray-fluorescence marking

PCT Number: PCT/IL2016/050340

Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.

International Filing Date: 31 March 2016

Outline of Technology

This patent family relates to systems and methods for reading X-ray-fluorescence (XRF) markings (signatures) and authenticating objects marked with the XRF markings. The technique disclosed in this patent family provides accurate and reliable reading and identification of XRF signatures under low signal to noise (SNR) and/or low signal to clutter (SCR) conditions. Reliably reading the XRF signatures under low SNR/SCR conditions is achieved by unique data processing utility configured for filtering of the wavelength spectral profile of the detected X-Ray signal to suppress trend and periodic components, from the detected wavelength spectral profile, which are associated with noise and/or clutter in the detected X-Ray signal. Accordingly, the filtered profile with improved SNR/SCR is obtained. Thus, the spectral peaks which are associated with the XRF signatures can be identified in the filtered profile with improved accuracy and reliability. According to this technology, authenticating objects marked by such XRF signatures is achieved by determining a wavelength spectral profile of an X-Ray signal arriving from an object in response to X-Ray or Gamma-Ray radiation applied to the object, filtering the wavelength spectral profile to suppress the trend and periodic components (i.e. by using time series techniques, and in particular utilizing autoregressive models), and processing the filtered profile to identify one or more peaks indicative of the signatures of materials included in the object. The technique of this invention facilitates detection of XRF signatures from marking compositions having low concentrations of XRF marker elements, and/or detection of XRF signatures in low SNR/SCR conditions and/or by handheld devices.

The PCT application filed in this matter includes 40 claims. The International Search Report and Written Opinion on patentability raised that the claims designate four invention groups as follows:

- First group pertaining to *spectral data provider*: Claims 1-3, 24, 25;
- Second group pertaining to *marker identification*: Claims 4, 5, 26-40;
- Third group pertaining to *handheld device*: Claims 6-12;
- Fourth group pertaining to *time series technique*: Claims 15-20

* Claims 13, 14 and 21-23 were considered pertaining to several of the above invention groups.

During the PCT stage, the 1st, 2nd and 4th invention groups were searched and examined. In the International Search Report and Written Opinion issued for this PCT application the following references were cited:

- o N. Stewart McIntyre et al: "X-Ray fluorescence spectroscopy and mapping using excitation from white and broad bandpass synchrotron radiation", Journal of Analytical Atomic Spectrometry, vol. 25, no. 9, 28 June 2010, pages 1381-1389
- o Rex Couture: "Background Subtraction for Trace-Element Analysis – Analytical Comparison of Methods", Advances in X-ray Analysis, vol. 45, 2002, pages 441-446
- o KR101273746

9. Patent Report

– 6 –

- US2003/194053
- Cantalejo Blanca et al: "Climate forcing of fine-grained deep-marine systems in an active tectonic setting: Middle Eocene, Ainsa Basin, Spanish Pyrenees", Palaeogeography, Palaeoclimatology, Palaeoecology, vol. 410, 17 June 2014, pages 351-371
- US2013/299591
- GB2062221

The PCT Examiner at the EPO considered Claims 34-40 and 17-20 to be patentable (novel, inventive and industrially applicable); Claim 28 was considered novel but lacking inventive step; and Claims 1-5, 24-27, 29-33, 13-16, 21-23 were considered lacking novelty and inventive step.

The claims that were acknowledged patentable are directed to the technique of filtering of an the X-Ray fluorescence (XRF) response signal received from the object which is to be authenticated, and more specifically recite that the filtering is performed by applying a time series analysis including a predetermined Auto-Regressive (AR) model for filtering spectra the signal.

In our view, as also admitted by the inventor, the claims considered patentable in the PCT provide valuable protection scope for the technology covered by this patent application, since the use of a predetermined Auto-Regressive (AR) model for filtering the spectrum of an XRF signal, and particularly the use of an ARIMA model, has significant advantage / value over other conventional techniques for filtering spectrum of a detected XRF signals.

Nonetheless, we consider that the preliminary opinion of the PCT Examiner with regards to the lack of novelty and/or inventiveness of independent claims 1 and 26 may be further argued during the examination of the national phase applications of this patent family.

Patent Applications in Family 1

Country	Official Number	Status
Taiwan	105110436	Filed (examination not yet requested)
Japan	502845/2018	Filed (examination not yet requested)
China	2016800299114	Pending – Awaiting examination report
European Patent Office	16716915.0	Pending – Awaiting examination report
Israel	254806	Pending – Awaiting examination report
Republic of Korea	10-2017-7031823	Filed (examination not yet requested)
United States of America	15/563,756	Pending – Awaiting examination report

9. Patent Report

– 7 –

Patent Family 2:

Authentication of metallic objects

PCT Number: PCT/IL2017/050121

Applicant: Soreq Nuclear Research Center Israel Atomic Energy
Commission, SECURITY MATTERS LTD.

International Filing Date: 02 February 2017

Outline of Technology

This patent family relates to an anti-counterfeit marking technique for verifying authenticity of objects using x-ray fluorescence (XRF) analysis. More specifically, an XRF marker composition for marking objects, particularly metallic objects, is disclosed. The XRF marker composition is characterized by low concentration of XRF-sensitive marker(s).

More specifically, the invention of this patent family takes advantage of the technique described in the patent family 1. Accordingly, the patent family 2 has a filing date earlier to the first publication of the patent family 1. The use of low concentration of XRF-sensitive marker(s) according to the technique of Patent Family 2 is facilitated by the use of the technique of patent family 1 for reading XRF markings (signatures).

The PCT application filed in this matter included 26 claims. In the International Search Report and Written Opinion issued in respect of the PCT application, the following references are listed as prior art:

- US publication no. 2007/111021;
- US patent no. 8,590,800;
- DE patent application no. 102013013108;
- US patent no. 6,850,592.

The PCT Examiner at the EPO considered claims 3, 8, 10-11, 13, 17, 24 and 26 to be novel, and considered all the as lacking inventive step. The claims acknowledged novel are directed to certain marker concentrations (claims 3 and 17), certain marker compositions (claims 8, 10-11 and 13), methods of marking or authenticating an object (claim 24) and means of material deposition (claim 26).

In support of his above lack of inventive step objection, the PCT Examiner applied a problem-solution approach, and, based on his subjective definition of the problem to be solved by the invention, contends that the solutions of the invention to this problem are generally known.

However, in our view, these objections, if raised by any national patent office, stand a reasonable chance to be overcome by arguing that the above objection of lack of inventive step is unjustified, or by performing suitable amendments to the claims. This is because we consider that the PCT Examiner incorrectly interpreted the invention, and specifically ignored such important and non-trivial features of the invention as the use of significantly low concentrations of the detectable marker elements in the marking composition. This provides for optimized marking and authentication of objects.

9. Patent Report

– 8 –

Patent Family 3:

Access control system and method thereof

PCT Number: PCT/IL2017/050354

Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.

International Filing Date: 21 March 2017

Outline of Technology

This patent family relates to an access control system, an access object and a method for access control. According to this technique, the access control system comprises an access request receiving device which receives an access object and which comprises an emitter irradiating the access object with a radiation having a wavelength in the range of about 10-12 and 10-9 m and a detector detecting a response signal from the irradiated access object; and a control circuit capable of processing the response signal to identify spectral features indicative of an XRF signature of the access object, and also for generating an unlocking signal for switching a module device between a locked state and an unlocked state upon identification of the XRF signature.

The PCT application filed in this matter included 33 claims. In the International Search Report and Written Opinion issued by the EPO in respect of this PCT application, the following references were listed as prior art:

- EP 1 936 539;
- US 8,408,851;
- US 3,936,662 ;
- US 2014/145823.

The PCT Examiner was of the opinion that claims 1-20, 22-24 and 26-33 are novel, but all the claims lack inventive step. The claims acknowledged novel are directed to an access control system (claims 1-20); an access object (claims 22-24); an access control method (claims 26-32); and a key duplication machine (claim 33).

In our view, as also admitted by the inventor, the claims considered novel by the PCT Examiner provide valuable protection scope for the technology covered by this patent application. Moreover, in our view, the objections of the PCT Examiner with regard to lack of inventiveness of the claims, based on the Examiner's subjective definition of the problem to be solved by the invention, if raised by any national patent office, stand a reasonable chance to be overcome. In particular, we believe that unique and essential features of the invention are neither described nor can be learned from the cited references. For example, the combination of a coded physical or electrical pattern for opening a lock module, and database including data indicative of such coded physical or electrical pattern(s) corresponding to a certain XRF signature, according to claim 17 of the PCT.

9. Patent Report

– 9 –

Patent Family 4:

A method and a system for XRF marking and reading XRF marks of electronic systems

PCT Number: PCT/IL2017/050404

Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.

International Filing Date: 04 April 2017

Outline of Technology

This patent family discloses a technology for implementing XRF marking in electronic systems, by implementing matching/corresponding XRF signatures in plurality of components of the electronic system. The XRF markings disclosed in this Patent Family may be used for example as: anti-counterfeit measure, supply chain indicators and/or for controlled matching/pairing between electronic components. An electronic system configured according to this technology includes at least two, a first and a second, electronic components, respectively carrying a first and a second XRF marking compositions (signatures), which should be mutually corresponding to one another. The correspondence between the first and the second XRF signatures in the electronic system enables verification that the two electronic components of the electronic system are compatible. In some implementations of this technology, reference data is used to determine the correspondence between the signatures of the two components, while in other implementation the correspondence between the XRF signatures is determined based on a predetermined mutual relationship condition between the signatures (the latter enables *in situ* determination of whether the two components are complementary without requiring external/reference data). The two electronic components may be for example any of the following component pairs: (i) a circuit board and an electronic component to be mounted on the board (e.g. at specific location designated by the XRF marking on the board); (ii) an electronic module (e.g. a semiconductor die) and its casing/package; (iii) two complementary electronic systems (e.g. a handheld device and a smart garment) that should be *a priori* paired in order to function together, whereby controlled pairing is provided based on their XRF signatures.

The PCT application filed in this matter included 36 claims. In the International Search Report and Written Opinion issued by the IL PTO in respect of the PCT application, the following references are listed as prior art:

- WO0125821;
- US2015078518;
- US2006187719;
- US2016169818.

Considering these citations, the PCT Examiner has issued a positive International Search Report and Written Opinion, indicating that all Claims 1-36 are considered to be patentable (novel, inventive and industrially applicable).

9. Patent Report

– 10 –

Patent Family 5:

An XRF analyzer for identifying a plurality of solid objects, a sorting system and a sorting method thereof

PCT Number: PCT/IL2017/050688

Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.

International Filing Date: 21 June 2017

Outline of Technology

This patent family discloses a novel XRF analyzer capable of simultaneously identifying the presence of a marking composition in a plurality of objects by modulating/varying the intensity of the excitation beam on the different objects and measuring the secondary radiation thereof. The XRF analyzer comprises a radiation emitter assembly adapted to emit X-Ray or Gamma-Ray excitation radiation beam(s) having a spatial intensity distribution for simultaneously irradiating the plurality of objects; a radiation detector for detecting secondary radiation X-Ray signals arriving from the plurality of objects in response to said irradiation, and providing data indicative of spatial intensity distribution of the detected X-Ray signals on the plurality of objects. A signal reading processor in communication with the detector is adapted for receiving and processing the detected response X-Ray signals to verify presence of the marking composition included at least one surface of each object of the plurality objects.

The PCT application filed in this matter included 23 claims. In the International Search Report and Written Opinion issued in respect of the PCT application, the following references are listed as prior art:

- US 2013/0079918;
- US 2015/0028219 ;
- US 2010/0017020 ;
- US 2006/0171504.

Considering these citations, the PCT Examiner of the IL PTO has issued a preliminary Written Opinion, indicating that Claims 1-7, 15 and 23 are considered patentable (novel, inventive and industrially applicable). Claims 10-14, 17-20 and 22 are considered to be novel but lacking inventive step, and Claims 8, 9, 16 and 21 are considered neither novel nor inventive.

The claims acknowledged patentable are directed to: An XRF analyzer and respective method (claims 1-7); and sorting system and sorting method which rely on the XRF analyzer/method of claims 1-7 (claims 15 and 23). In our view, these claims have desirable broad scope and define practical solutions in the field of the invention.

9. Patent Report

– 11 –

Patent Family 6:

Method for marking and authenticating precious stones

PCT Number: PCT/IL2017/050961

Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.

International Filing Date: 29 August 2017

Outline of Technology

This patent family discloses methods and systems for authentication of precious stones, such as diamonds, according to their natural ID and/or predetermined markings created in the stones, based on unique characteristic radiation response of the stone to predetermined primary radiation. The authentication of the precious stones may be based on the XRF signatures of the stones, by measuring a secondary XRF radiation response from the stone (i.e. secondary radiation induced in response to irradiation of the stone with predetermined primary radiation). The measured data is analyzed to determine a match between the secondary, XRF radiation response from the stone and reference data indicative of various precious stones and their unique characteristic responses. Upon determining such a match the stone is identified as authentic. In this connection, as specifically described in the patent application, the XRF radiation response from the stone may be unique characteristic response of the stone which corresponds to natural elemental ID of the stone defined by the unique material composition of the stone, e.g. eliminating a need for any additional marking. Alternatively or additionally the XRF radiation response from the stone may correspond to a unique material composition of a marking which was applied to the stone. In this regards Patent Family 7 also discloses a technology for marking precious stones with authenticating XRF signatures. According to this aspect a precious stone is marked by applying a material deposition process to create at least one predetermined unique marking characterized by unique characteristic X-ray or gamma-ray radiation response, on a surface region of the precious stone. The unique marking composition is indicative of the precious stone or of a batch of related stones. The marking may be applied in the form of a single or multilayered structure for instance by utilizing *chemical vapor deposition (CVD)* or *atomic layer deposition (ALD)* processes without affecting the characteristics of the precious stone (e.g. without affecting its carat, clarity, color and cut).

The PCT application filed in this matter included 28 claims. In the International Search Report and Written Opinion issued by the US PTO in respect of this PCT application, the following references are listed as prior art:

- WO02/068945
- US2013/0130044
- US2004/0144761
- US2016/0070723

The PCT Examiner considers Claims 2-7, 10-14, 23-25, 27, 28 to be novel but lacking inventive step; and Claims 1, 8, 9, 15-22, 26 are considered as lacking novelty and inventive step.

9. Patent Report

– 12 –

In our view, the cited prior art fails to disclose the prominent features of the invention. For example, such features/aspects of the invention include the use of the XRF radiation response from the stone as unique characteristic response of the stone which corresponds to natural elemental ID of the stone defined by the unique material composition of the stone, e.g. eliminating a need for any additional marking, and/or the use of XRF radiation response from the stone corresponding to a unique material composition of a marking applied to the stone as the stone's ID. We therefore believe that the preliminary opinion of the PCT Examiner with regards to the lack of novelty and/or inventiveness may be further argued during the examination of the national phase applications of this patent family.

Patent Family 7:

X-ray fluorescence system and method for identifying samples

PCT Number: PCT/IL2017/051050

Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.

International Filing Date: 17 September 2017

Outline of Technology

This patent family describes a control system and method for controlling operation of an X-ray Fluorescent (XRF) system for detecting at least one material carried by a sample, for example at least one marker carried by the sample. The control system comprises data input receiving input data comprising material/marker related data about; and data processor and analyzer. The data processor and analyzer is adapted to analyze the input data and determine optimal geometrical characteristics of the XRF system for optimizing operational conditions of the XRF system to maximize amount of primary X-ray radiation that reaches a predetermined region of the sample and is absorbed by a volume of this region and to maximize a portion of secondary radiation emitted from this region that reaches a detector of the XRF system. Corresponding operational data is fed to the XRF system enabling adjustment of the geometrical characteristics of the XRF system.

The PCT application filed in this matter included 14 claims. In the International Search Report and Written Opinion issued by the IL PTO in respect of this PCT application, the following references are listed as prior art:

- US2010/0046700
- US4048496
- US2014/0151569
- US2016/0252471
- US6069934

The PCT Examiner considers that Claims 2, 5, 7, 9, 10, 12, 14 are novel but lacking inventive step, and Claims 1, 3, 4, 6, 8, 11, 13 lack novelty and inventive step.

However, in our view, the PCT Examiner is wrong with regard to his interpretation of the prominent features of the invention recited in the main claims, in

9. Patent Report

– 13 –

particular the use of material-related data about a sample to optimize geometrical characteristics of the XRF system aimed at optimizing X-ray based measurements. Even more, the Examiner did not provide any meaningful opinion for the reasons of rejection of important claims. We therefore believe that the preliminary opinion of the PCT Examiner with regards to the lack of novelty and/or inventiveness may be further argued during the examination of the national phase applications of this patent family.

Country	Official Number	Status
Taiwan	106131874	Filed (examination not yet requested)

Patent Family 8:

Method for Detecting Mishandling and Misuse of Food Products

PCT Number: PCT/IL2017/051073

Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.

International Filing Date: 25 September 2017

Outline of Technology

This patent family discloses a technology for marking products for human or animal use by identifiable XRF markings. The products may be food products, therapeutics and cosmetics. The technology disclosed in this patent family enables detection of mishandling and/or misuse of human or animal food products. According to this technology, the food products are marked by a pattern of at least one FDA-grade material that is identifiable by XRF (namely FDA-grade material having predefined identifiable XRF characteristic). In particular, this patent family discloses an FDA-graded ink formulation for application onto a food product for marking the product with XRF readable markings/patterns. Optionally the marking/pattern/ink is invisible to the naked human eye. In some implementations of this technology, the pattern/mark is configured for transition in between a first identifiable XRF characteristic and a second XRF characteristic in response to an external stimulus (e.g. stimulus such as temperature, oxygen, moisture, mechanical treatment, repackaging, and others). Accordingly, the technology provides for detecting the mishandling and/or misuse of the (food) product by reading the XRF characteristic of the pattern of the food product and comparing it with reference data indicative of the original/first XRF characteristic of the pattern (e.g. that marked the food product prior its commercialization). This enables to determine whether the food product is authentic and/or whether it has been mishandled and/or misused.

9. Patent Report

– 14 –

The PCT application filed in this matter included 19 claims. In the International Search Report and Written Opinion issued by the EPO in respect of this PCT application, the PCT Examiner identified three different inventions, as follows:

1. Invention 1- The method for marking a product for human or animal use according to claims 1, 3, 8, 9, 11, 13 and partially also to claims 4-7 and 14-15; and the ink formulation of claims 8-9;
2. Invention 2- The method for authenticating a product for human or animal use according to claims 2, 12, 16-19 and partially also to claims 4-7 and 14-15;
3. Invention 3- The method for determining mishandling of a product according to claim 10.

In the International Search Report and Written Opinion only the first invention (Invention 1) has been searched for and examined, and the following reference were cited as prior art :

- o JP 2006/291061.

Considering this citation, the PCT Examiner has issued a preliminary Written Opinion, indicating that the claims of invention 1 are unpatentable over this citation. However, the PCT Examiner did not provide any meaningful explanations for the reasons he considered the claims as lacking inventive step, and moreover did not provide any meaningful observations with regards to claims other than basic Claim 1. We therefore believe that the preliminary opinion of the PCT Examiner with regards to the lack of novelty and/or inventiveness may be further argued during the examination of the national phase applications of this patent family.

Patent Family 9:

XRF-Identifiable Transparent Polymers

PCT Number: PCT/IL2017/051112
Applicant: Soreq Nuclear Research Center, SECURITY MATTERS LTD.
International Filing Date: 1 October 2017

Outline of Technology

The technique of this patent family pertains to formulations and masterbatches of a polymeric material and XRF-identifiable markers, for producing transparent elements comprising a polymer and at least one XRF-identifiable marker for a variety of industrial uses.

Patent Family 10 (not published yet):

A System for Virtual Currency based on Blockchain Architecture and Physical Marking

PCT Number: PCT/IL2018/050499
Applicant: SECURITY MATTERS LTD.
International Filing Date: 8 May 2018

Patent Family 11 (not published yet):

An Object Marking System for Authentication and Verification

PCT Number: PCT/IL2018/050527

Applicant: SECURITY MATTERS LTD.

International Filing Date: 15 May 2018

U.S. Provisional Patent Applications:

In addition to the above patent families, *Security Matters* has also the right to priority from the following U.S. provisional patent application, which is presently within its priority year, as follows:

- U.S. provisional No. 62/642,858 filed on March 14, 2018, disclosing a system for implementing transactions and smart contracts involving virtual currencies and marked physical objects

4. Limitations of This Report

This Report is not to be construed as a legal opinion as to the registerability of patent applications. It should also be appreciated that the Report is not a patent validity opinion.

No conclusions on the validity of the patent portfolio of *Security Matters* should be made from this Report. Moreover, the Report does not provide any guarantee that the subject inventions may be commercially exploited without risk of infringement of earlier patent rights.

Examination Reports in One Country Not Binding In Other Countries

In most countries, patent applications undergo an independent search and examination by the local Patent Office, the results of which are not binding in other jurisdictions. Similarly, international PCT search and examination reports are not binding on national patent applications during subsequent examination in the national phase. Such reports should therefore be regarded as indicative only and not determinative of patentability. It should also be appreciated that the grant of a patent in one jurisdiction provides no guarantee that patents will be granted in other jurisdictions.

Scope of Claims May Vary during Examination

It is often necessary during the examination of a patent application to differently define the invention, for example more specifically, by amendment of the claims. As a result of this process, there may be variations in the scope of claims between counterpart patent applications in different jurisdictions, reflecting in part the different examination procedures and threshold requirements for patentability, according to national laws. Whilst this is a relatively standard procedure, in certain circumstances, such amendments may affect the scope and hence the commercial significance of the resultant patent protection.

9. Patent Report

– 16 –

5. Statement of Independence

The **Reinhold Cohn Group**, established in 1934, is a leading IP firm in Israel, proudly representing a significant number of Israeli and international businesses. Neither the Reinhold Cohn Group nor any of its Partners and Principals has any entitlement to any securities in *Security Matters*, or has any other interest in the promotion of *Security Matters*. Furthermore, the payment of fees to the **Reinhold Cohn Group** for the preparation of this Report, is not contingent upon the outcome of the Prospectus.

We have given and, at the date of this Report have not revoked, our consent to the issue of the Prospectus by *Security Matters* with this Report appearing therein in the form which it now appears.

Yours very truly,
REINHOLD COHN AND PARTNERS
By:



Svetlana STADLER,
Patent Attorney, Senior Partner



Doron SHLOMO,
Patent Attorney, Partner

10. Additional Information

10.1 Registration

Security Matters Limited (ACN 626 192 998) was registered in Victoria on 16 May 2018 as a public company.

Security Matters Israel was incorporated in Israel on 1 January 2015.

10.2 Company tax status and financial year

The Company is and will be subject to tax at the Australian corporate tax rate.

The Company's financial year ends on 31 December annually.

10.3 Material contracts

The Directors consider that there are a number of contracts which are significant or material to the Security Matters Group or are of such a nature that an investor may wish to have details of them when making an assessment of whether to apply for Shares. The main provisions of these contracts are summarised below, or elsewhere in this Prospectus. These summaries are included for the information of potential investors in the Offer but do not purport to be complete and are qualified by the text of the contracts themselves.

There is no guarantee the Company's commercial arrangements with MTL, Crossworks, The Perth Mint or BASF as set out below will result in binding, revenue generating agreements. Please see Section 1.3 and Section 5 for the key risks associated with the Company's commercial arrangements.

10.4 Security Matters Israel Acquisition

The Company intends to complete the Security Matters Israel Acquisition immediately prior to Completion of the Offer resulting in Security Matters Israel becoming a wholly owned subsidiary of the Company.

Under the terms of the share sale agreement, the Existing Shareholders agree to sell their shares in Security Matters Israel, free from any encumbrance, to the Company in consideration for the Company issuing 55,500,041 Shares to the Existing Shareholders.

The share sale agreement is governed by the laws of Victoria, Australia.

10.5 Isorad Licence Agreement

See Section 3.1 and Section 3.16 for a summary of the Isorad Licence Agreement.

10.6 Jindalee Partners Agreement – strategic business development partner

The Company has engaged Jindalee Partners as the Company's strategic business development partner in Australia. Jindalee is an Australian based corporate advisory firm. John Poynton AO, a member of the Company's Advisory Board, is a co-founder and the chairman of Jindalee Partners. Jindalee Partners assists technology-based companies through all parts of the commercialisation cycle from start-up funding, partnering, internationalisation and listings. Through its networks, Jindalee Partners connects entrepreneurs, investors and projects and acts as a bridge into global markets for Australian based projects.

Jindalee Partners has been engaged to introduce the Company to industry leaders within target markets and negotiate the terms of commercial arrangements on behalf of the Company.

The key terms of the agreement include:

- i) the Company agrees to pay Jindalee Partners a fee based on each commercial arrangement that Jindalee Partners successfully negotiates on behalf of the Company. The fee is to be the higher of: (a) 5% plus GST of the combined year one and year two gross revenue (any income received by the Company from the counter party); and (b) \$50,000 plus GST;
- ii) the Company will issue Jindalee Partners shares in the Company, equivalent to 5% of the combined year one and year two gross revenue, based on weighted average price per share of 10 days before and after announcement of the deal (or, if before an IPO, the Offer Price). The total value of the shares will be so that the total payment to Jindalee Partners (cash and shares) will not exceed 10% of the combined revenue for year one and year two at the end of the second year; and
- iii) Jindalee Partner is to be granted exclusive rights to distribute the Company's technology to the global medicinal cannabis sector. Jindalee Partners and the Company agree to finalise structure and performance milestones for this sector within 180 days of the Listing.

10.7 Kafrit Group – plastics industry collaboration agreement

The Company is in a strategic partnership with Kafrit, a worldwide expert in plastic additives and Masterbatches.

See Section 3.7(a) for a summary of the Kafrit collaboration agreement.

- 1) Any reference that contains the registered trademark MUL-T-LOCK® and/or other trademarks that are the exclusive property of MUL-T-LOCK technologies Ltd. ("MTL") and/or its affiliated parties. None of MTL, its parents, subsidiaries or affiliates or any of their respective officers, directors, members, managers, shareholders, stakeholder, owners, and employees (collectively, "MTL parties") is an issuer or an underwriter of the securities offered or issued hereby plays or will play any role in the offer or sale of our securities or has any liability and/or responsibility for the creation or contents of this document. In addition none of the MTL parties has or will have any liability or responsibility whatsoever arising out of or related to the offer or sale of the securities being offered hereby including without limitation any liability or responsibility for any financial statements, projections, or other financial information, forward-looking information or other information contained in this document, including information pertaining to any mtl party or otherwise disseminated in connection with the offer or sale of securities by this document. You must understand that if you purchase our securities your sole recourse for any alleged or actual impropriety relating to the offer and sale of securities and/or the operation of our business will be against us and/or as maybe applicable the seller of the securities and in no event may you seek to impose any liability or responsibility, whether directly or indirectly, upon any of the mtl members.

10. Additional Information

10.8 MTL – keys and key-blanks

The Company currently has a paid project with (based on an uncontracted commercial arrangement) Mul-T-Lock Technologies Ltd. ¹ (MTL) for marking and identifying of keys and/or key-blanks. MTL is a leading Israeli company that develops, manufactures and markets locking products and door-opening solutions, owned by an international leader in its market.

MTL is the Company's first customer, and the project serves as an example that the Company's technology can be utilised for civilian purposes, applied at the customer's production line. The Company is currently examining future possible collaborations with MTL for use of the Company's technology.

10.9 BASF Global – raw material quality assurance

Security Matters Israel is informally engaged in the examination of several applications with the Performance Chemicals division of BASF. BASF is a leading chemical company with more than 115,000 employees globally. The Performance Chemicals Division is one out of 13 Divisions of BASF, producing customized products for many sectors, from mining and the fuel industry to plastics processing. The innovation team of BASF's Performance Chemicals division is evaluating different use cases in which Security Matters' technology could bring value to BASF and the parties are currently investigating these use cases to choose the first proof-of-concept.

10.10 Crossworks – diamonds

See Section 3.7(b) for a summary of the Crossworks LOI.

10.11 The Perth Mint – gold

Security Matters Israel has signed a memorandum of understanding with The Perth Mint for the mutual development of a marking and reading solution for the gold mining and refining sector incorporating the Company's technology. The next stage in the process is for the parties to enter into a legally binding agreement.

10.12 Lead Manager Agreement

The Lead Manager Mandate sets out the terms and conditions on which the Lead Manager will act as the sole Lead Manager to the IPO.

The Company agrees to pay to the Lead Manager the following professional fees in consideration for its services:

- i) 'Convertible Note Raising Fee' of 6% plus GST in relation to the total raised under the convertible note issue which raised \$1.68 million in June 2018;
- ii) 'Corporate Advisory Fee' of \$7,500 plus GST per month from 1 May 2018 (this fee will increase to \$10,000 plus GST per month from Listing);
- iii) 'IPO Management Fee' of \$50,000 plus GST on Listing;

- iv) 'IPO Placement Fee' of 6% (plus GST) of total raised under the Offer (which may be allocated to other brokers at the Lead Manager's discretion);
- v) 'Lead Manager Option Issue' of Options equal to 5% of the fully diluted total Shares issued under the Offer. The Options will have a three year expiry and Shares under the options will be issued at a 50% premium to the Offer Price (which may be allocated to other brokers at the Lead Manager's discretion); and
- vi) Reimbursement of all reasonably incurred disbursement expenses subject to a limit for non-approved expenses of \$3,000 per month.

10.13 Performance Options

The key terms of the Performance Options are:

- a) **(Performance Option)**: each Performance Option, subject to paragraph (j), confers upon the holder (**Holder**) the right to be issued one share in the capital of the Company (**Share**) on the exercise of the Performance Option.
- b) **(Dividend and Voting Rights)**: a Performance Option does not confer upon the Holder an entitlement to vote or receive dividends.
- c) **(No rights to return of capital)**: a Performance Option does not entitle the Holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- d) **(Share ranking)**: all Shares issued to a Holder on the exercise of a Performance Option will upon issue rank *pari passu* in all respects with all other shares.
- e) **(Listing of Shares on ASX)**: the Company will not apply for quotation of the Performance Options on ASX. However, if the Company is listed on the ASX at the time that Shares are issued to the Holder pursuant to the exercise of a Performance Option, the Company will apply for quotation of all such Shares on ASX within the period required by ASX.
- f) **(Transfer of Performance Options)**: a Performance Option is not transferable (including encumbering the Performance Options).
- g) **(Participation in new issues)**: there are no participation rights or entitlements inherent in the Performance Options and Holders will not be entitled to participate in new issues of capital offered to Members during the currency of the Performance Options.
- h) **(Adjustment for reconstruction)**: if, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a Holder of a Performance Option (including the exercise conditions) are to be changed in a manner consistent with the applicable laws and the ASX Listing Rules at the time of the reorganisation.
- i) **(Exercise Price)**: the exercise price of each Performance Option will be \$0.20 (**Exercise Price**).

10. Additional Information

10.13 Performance Options *continued*

- j) **(Exercise)**: subject to paragraph (k), on the exercise of each Performance Option, one Share will be issued upon the receipt of a written notice from the relevant Holder requesting that the Performance Option is exercised following the achievement within four years (**Sunset Date**) of the following milestones and the payment of the Exercise Price (**Milestones**) within five years of the issue of the Performance Options:

Tranche	No of shares	Revenue milestone	Tech milestones	No of shares allocated to each recipient
1	5,000,000	\$1 million revenues per half year for 2 consecutive half years	<ul style="list-style-type: none"> – 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 David Rosenblatt – 1,666,666
2	5,000,000	\$2 million revenues per half year for 2 consecutive half years	<ul style="list-style-type: none"> – 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 David Rosenblatt – 1,666,667
3	5,000,000	\$4 million revenues per half year for 2 consecutive half years	<ul style="list-style-type: none"> – 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 David Rosenblatt – 1,666,667

- k) **(Deferral of share issue if resulting in a prohibited acquisition of shares)**: if the issue of Shares to a Holder pursuant to the exercise of the Performance Option would result in any person being in contravention of section 606(1) of the applicable laws (Prohibition), the issue of such Shares will be deferred until such time or times when the issue of Shares would not result in a contravention of the Prohibition. In assessing whether the issue of shares would result in any person being in contravention of the Prohibition:
- i) Holders may give written notice to the Company if they consider that the issue of Shares may result in contravention of the Prohibition. The absence of such written notice from the Holder will entitle the Company to assume that the issue of Shares will not result in any person being in contravention of the Prohibition.
 - ii) the Company may (but is not obliged to) by written notice to a Holder request that a Holder provides the written notice referred to in paragraph (k)(i) above within 7 days if the Company considers that the issue of shares may result in the contravention of the Prohibition. The absence of such written notice from the Holder will entitle the Company to assume that the issue of Shares will not result in any person being in contravention of the Prohibition.
- l) **(If Milestone not Achieved)**: if the relevant Milestone is not achieved by the Sunset Date, then each Performance Option in that class will automatically lapse on the non-satisfaction of the relevant Milestone.
- m) **(Issue of shares procedure)**: if a relevant Milestone in paragraph (j) is achieved prior to the Sunset Date, the Company will issue the Holder with a new holding statement for any Share issued upon the exercise of a Performance Option within 10 business days following the exercise of the Performance Option.
- n) **(Continued service)**: a Holder must be a Director, Advisory Board member, consultant or employee of the Company or a subsidiary thereof. A Holder's entitlement to Performance Options ceases upon the date that the Holder ceases to be either a Director, Advisory Board member, consultant or employee of the Company.
- o) **(Rights on termination or resignation of continued service)** Notwithstanding anything to the contrary herein, a Performance Option may be exercised after the date of termination or resignation of a Holder's service or employment with the Company or any subsidiary of the Company only with respect to the number of Performance Options already vested and unexpired at the time of such termination, provided however, that;
- i) such termination is without Cause (as defined below) in which case the Performance Options will be exercisable within not more than 90 days from the effective date of such termination; or
 - ii) such termination is the result of death or permanent disability of the Holder, in which case the Performance Options will be exercisable within 12 months from the effective date of such termination.

10. Additional Information

10.13 Performance Options *continued*

The term “Cause” shall mean:

- iii) conviction of any felony involving moral turpitude or otherwise affecting to the detriment the Company or its subsidiaries;
- iv) any refusal to carry out a reasonable directive of the CEO or the Board of Directors which involves the business of the Company or its subsidiaries and was capable of being lawfully performed;
- v) embezzlement of funds of the Company or its subsidiaries or other malicious behavior against the Company or its subsidiaries or against the State of Israel;
- vi) any breach of the Holder’s fiduciary duties or duties of care of the Company or any subsidiary; including, without limitations, disclosure of confidential information of such entity or breach of non-compete provision of the engagement agreement of such Holder; and
- p) any conduct (other than conduct in good faith) reasonably determined by the Board of Directors to be materially detrimental to the Company or any subsidiary.

10.14 Options to Existing Shareholders

a) Issue price

No amount is payable on issue of the Options, however, the parties acknowledge and agree that the Company has issued the Options in consideration for the Option holder providing marketing and equity raising services to the Company, or other services to support its business development efforts.

b) Escrow

The Option holder acknowledges that the Options will be subject to escrow under ASX Listing Rules and agrees to sign any restriction agreement in a timely manner as required as part of the IPO process.

c) Exercise price

The exercise price of an Option is the Offer Price.

d) Option period and vesting

The Options may be exercised in whole at any time after the issue of the Option and if not exercised, the Options automatically expire 60 months after the issue of the Options.

The Options will expire automatically if the Company is not, following their issue, admitted to the ASX as part of the listing of Security Matters Limited (with respect to which the Agreement was entered into).

e) Participation rights, bonus issues, rights issues and reorganisations

i) Participation

The Option holder is not entitled to participate in any new issue to existing shareholders of securities in the Company unless he has exercised his Options before the record date for determining entitlements to the new issue of securities and participate as a result of holding shares.

ii) Notice of new issue

The Company must give the Option holder, in accordance with the ASX Listing Rules, notice of:

- the proposed terms of the issue or offer proposed under paragraph (e)(i); and
- where the option can be exercised by the Option holder, the right to exercise his option under paragraph (e)(i).

iii) Bonus issues

If the Company makes a bonus issue of shares or other securities to shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the option before the record date for determining entitlements to the issue, then the number of underlying Shares over which the option is exercisable is increased by the number of Shares which the Option holder would have received if the Option holder had exercised the option before the record date for determining entitlements to the issue.

iv) Pro rata issues

If the Company makes a pro rata issue of Shares (except a bonus issue) to existing shareholders (except an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the option before the record date for determining entitlements to the issue, the exercise price of each option is reduced in accordance with the ASX Listing Rules.

v) Reorganisation

If there is a reorganisation (including consolidation, sub-division, reduction or return) of the share capital of the Company, then the rights of the Option holder (including the number of options to which the Option holder is entitled to and the exercise price) is changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

vi) Calculations and adjustments

Any calculations or adjustments which are required to be made under paragraph (e) will be made by the Board of the Company and will, in the absence of manifest error, be final and conclusive and binding on the Company and the Option holder.

vii) Notice of change

The Company must within a reasonable period give to the Option holder notice of any change under paragraph (e) of this Schedule to the exercise price of any options held by the Option holder or the number of shares which the Option holder is entitled to subscribe for on exercise of an option.

10. Additional Information

10.14 Options to Existing Shareholders *continued*

f) Method of exercise of options

i) Method and payment

To exercise options, the Option holder must give the Company or its share registry, at the same time:

- a written exercise notice (in the form approved by the board of the Company from time to time) specifying the number of options being exercised and shares to be issued; and
- payment of the exercise price for the Shares the subject of the exercise notice by way of bank cheque or by other means of payment approved by the Company.

ii) Exercise of Options

The Option holder may exercise the Options in part or in whole.

Options will be deemed to have been exercised on the date the application is lodged with the directors of the Company.

iii) Issue of Shares

Within 10 days after receiving an application for exercise of options and payment by the Option holder of the exercise price, the Company must issue the Option holder the number of Shares specified in the application.

g) Ranking of Shares issued on exercise of options

Subject to the Company's constitution, all Shares issued on the exercise of Options rank in all respects (including rights relating to dividends) *pari passu* with the existing Shares at the date of issue.

h) Quotation

The Company will not apply to ASX Limited for official quotation of the Options.

The Company will apply to ASX Limited for official quotation of the Shares issued on exercise of Options.

10.15 Convertible Notes

In May and June 2018, the Company raised from the Noteholders \$1.68 million by way of unsecured notes convertible into shares of the Company upon Completion of the Offer at \$0.14 per Share calculated as a 30% discount to the Offer Price.

The key terms of the Convertible Notes are:

- Note:** Unsecured pre-IPO convertible note;
- Conversion Mechanism:** A Note will be converted into Shares in the Company on the occurrence of an 'Exit Event' being an IPO or a trade sale;
- Conversion Price:** \$0.14, being a 30% discount to the Offer Price (Notes converted into 70% of the price per share paid for any other relevant Exit Event);
- Restriction:** The Noteholder will receive the Shares issued on an IPO conversion as Shares on the same terms and conditions as disclosed in this Prospectus, but with a restriction period imposed under law (such as any ASX imposed escrow period). Further, certain Noteholders have entered into a voluntary escrow agreement with the Company for a period of 12 months from Listing;

- Redemption:** The Company may redeem the Notes at any time by notice to a Noteholder. The Company must redeem the Notes on the earliest of the occurrence of an event of insolvency on the occurrence of an event of default or if an IPO or trade sale does not occur within 12 months of the execution of the note deed poll; and
- Redemption amount:** Notes the subject of redemption are redeemable for 120% of the principal amount.

10.16 Shareholder loan agreement

In 2015, Security Matters Israel signed an agreement to receive a loan of ILS 2,000,000 (approximately \$746,000) from its major shareholders Kibbutz Ketura ACS (through Energy Ketura Cooperative Agricultural Society Ltd) and Kibbutz Degania A (through Degania A Business Agricultural Cooperative Society Ltd). The two Existing Shareholders received a loan from a financial body of the Kibbutz movement in Israel at beneficial terms and lent it back-to-back to Security Matters Israel.

Security Matters Israel has so far paid ILS 100,000 (approximately \$37,000) of the loan as well as the interest payable monthly. The terms of the agreement were amended in February 2018 to postpone the payment of the loan amount to after Listing. The key terms of the loan are:

a) Interest rate

4% per annum, paid monthly.

b) Loan repayment

The Company will pay the loan amount in eight quarterly instalments, the first seven of ILS 250,000 each (approximately \$93,000), and the last instalment of ILS 150,000 (approximately \$56,000). The payments will commence upon the earliest of Listing and 1 November 2018.

c) Bonus

The Company must pay a bonus payment required to be paid by Kibbutz Ketura or Kibbutz Degania A as part of the terms of the loan. The bonus payment requirements are as follows:

Out of any future compensation to Kibbutz Ketura and Kibbutz Degania A received due to their holding in the Company (or holding of their subsidiaries, Energy Ketura Cooperative Agricultural Society Ltd and Degania A Business Agricultural Cooperative Society Ltd), in the form of a dividend or through a sale of shares, the bonus to be paid as part of the loan repayment will be calculated as follows for each shareholder separately:

- Cumulative compensation of up to ILS 3,075,000 (approximately \$1.1 million) – No bonus payment;
- Cumulative compensation of between ILS 3,075,000 (approximately \$1.1 million) and ILS 9,075,000 (approximately \$3.4 million) - 50% of compensation bonus payment;
- Cumulative compensation of more than ILS 9,075,000 (approximately \$3.4 million) – No bonus payment.

There is a cap of ILS 6,000,000 (approximately \$2.2 million) for the maximum bonus to be paid as repayment of the loan.

10. Additional Information

10.17 Finder Fee

In March 2018, the Company and Doron Afik (Partner of Afik & Co, one of the Company's Israeli legal advisers) entered into a finders agreement where Doron Afik will assist the Company, on a non-exclusive basis, by introducing the Company to a pre-agreed list potential investors (**Approved Targets**) and advising the Company in relation to certain equity financing (**Qualified Financing**) investments made by an Approved Target during the term of the agreement or within 12 months following the termination of the agreement.

Doron Afik is entitled to a cash fee of 6% of the net proceeds actually received by the Company from an Approved Target in connection with a Qualified Financing (minus transaction costs and expenses). In the event an introduction is not in connection with a Qualified Financing, then the parties will pre-agree on the fee Doron Afik is entitled to receive for that particular investment or transaction.

Doron Afik is considered an independent contractor for the purpose of the agreement and has no right to bind the Company. The Company can reject any introduction made by Doron Afik in its sole and absolute discretion.

The agreement can be terminated by either party on 30 days' prior written notice or immediately by the Company on the breach of certain terms by Doron Afik.

The agreement is governed by the laws of Israel.

Doron Afik introduced three Approved Targets to the Company as part of the pre-IPO convertible note raise, and earned US\$23,100 in relation to those introductions.

10.18 Ownership restrictions

The sale and purchase of Shares in the Company is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section contains a general description of these laws.

10.19 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20% or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company.

10.20 Foreign Acquisitions and Takeovers Act 1975 (Cth)

Generally, the *Foreign Acquisitions and Takeovers Act 1975 (Cth)* (**FATA**) applies to acquisition of shares and voting power in a company of 20% or more by a single foreign person and its associates, or 40% or more by two or more unassociated foreign persons and their associates, where the acquisition meets a threshold value (which varies by investor type and industry). In addition, FATA applies to acquisitions of a direct interest in an Australian company by foreign governments and their related entities irrespective of the acquisition value. A 'direct interest' is an interest of 10% in the entity but may also include an interest of less than 10% where the investor has entered into business arrangements with the entity or the investor in a position to influence or participate in the management and control or policy of the entity. There are exemptions which can apply to certain acquisitions.

Where FATA applies to the acquisition, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either notified that there is no objection to the proposed acquisition (with or without conditions) or a statutory period has expired without the Federal Treasurer objecting.

An acquisition to which the FATA applies may be the subject of a divestment order by the Federal Treasurer unless the process of notification, and either a non-objection notification or expiry of a statutory period without objection, has occurred. Criminal offences and civil penalties can apply to failing to give notification of certain acquisitions, undertaking certain acquisitions without no objection notification or contravening a condition in a no objection notification.

10.21 Australian tax considerations

The comments in this Section provide a general outline of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus and that hold Shares in the Company on capital account for Australian income tax purposes.

This summary does not constitute financial product advice as defined in the Corporations Act. This summary is confined to Australian taxation issues and is only one of the matters which need to be considered by Shareholders before making a decision about an investment in the Shares.

Investors should note that tax laws are subject to ongoing change, and this section does not consider any changes in administrative practice or interpretation by the relevant tax authorities, or any changes in law by judicial decision or legislation following the Prospectus Date. To the extent that there are any changes in law after the Prospectus Date, including those having retrospective effect, Shareholders should consider the tax consequences, taking into account their own individual circumstances, and should consider taking advice from a professional advisor before making a decision about an investment to acquire Shares under this Prospectus.

10. Additional Information

10.21 Australian tax considerations *continued*

The taxation implications of a subscription for Shares may be affected by the individual circumstances of each Shareholder, and it is recommended that Shareholders consult their own independent advisors regarding taxation consequences, including stamp duty, income tax and Australian goods and services tax consequences of the acquisition, ownership and disposal of Shares. This summary is general in nature and does not cover all income tax consequences that could apply in all circumstances of any Shareholder.

The categories of Shareholders considered in this Section 10.22 are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their Shares on capital account, and it does not consider Shareholders that hold Shares on revenue account, carry on a business of trading in Shares, are exempt from Australian tax, foreign residents, insurance companies, banks or Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the Income Tax Assessment Act 1997 (Cth). This Section 10.22 also assumes that each Shareholder (together with its associates) holds at all relevant times less than 10% of the Shares in the Company.

10.22 Dividends on Shares

a) Australian tax resident individuals and complying superannuation entities

Where dividends on a Share are paid by the Company, those dividends should constitute assessable income of an Australian tax resident Shareholder.

Individuals or complying superannuation entities who are Australian tax resident Shareholders should include the dividend (together with any franking credits attached to that dividend) in their assessable income in the year the dividend is paid. Investors should note that the tax rate payable by each individual Australian resident Shareholder will depend on the circumstances of the Shareholder and their prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a 'tax offset' equal to the franking credits attached to the dividend, subject to being a 'qualified person', and the tax offset may be applied to reduce the tax payable on the Shareholder's taxable income. If a dividend paid by the Company is unfranked, the Shareholder will generally be taxed at the Shareholder's marginal rate on the dividend received, with no tax offset.

b) Australian tax resident corporate Shareholders

Corporate Shareholders are required to include the dividend and associated franking credits in their assessable income, and a tax offset will then be allowed up to the amount of the franking credits. To the extent of the franking credits attached to the dividend, the Australian resident corporate Shareholder should be entitled to a credit in its franking account, and can pass on the benefit of the franked credits to their own shareholders on the payment of franked dividends. While excess franking credits cannot give rise to a refund, they may (in certain circumstances) be converted into carry forward tax losses.

c) Australian tax resident trusts and partnerships

Australian tax resident Shareholders who are partnerships or trustees (other than trustees of 'complying superannuation entities') or partnerships should include dividends and franking credits in determining the net income of the partnership or trust. A beneficiary of a trust, a trustee or a partner may be entitled to a tax offset equal to their share of the net income of the trust or partnership (as relevant),

d) Holding period and related payment rules

To be eligible for tax offsets and franking credits and tax offset, a Shareholder must satisfy the 'holding period' and 'related payment' rules, requiring that the Shareholder hold the Shares 'at risk' for a continuous period of more than 45 days, excluding the dates of acquisition and disposal). Where these rules are not satisfied, the Shareholder will not include an amount for the franking credits in their assessable income and should not be entitled to a tax offset.

The Shares are not held 'at risk' if the Shareholder has a materially diminished risk of loss or opportunity for gain in relation to the Shares. For example, if the Shareholder has entered into an agreement to dispose of the Shares, or granted options over Shares, the Shareholder will not hold the Shares 'at risk'.

A Shareholder will not be obliged to make a 'related payment' in respect of a dividend, unless they hold the Shares 'at risk' for the required holding period around the dividend dates.

This holding period rule is subject to exceptions, including where the total franking offsets of an individual in a year of income are under \$5,000, and special rules apply to trusts and beneficiaries. The Board recommends that Shareholders should obtain their own professional tax advice to determine if these requirements have been satisfied.

10. Additional Information

10.22 Dividends on Shares *continued*

e) Australian Capital gains tax implications on a disposal of Shares

The disposal of a Share by an Australian resident Shareholder will constitute a CGT event. A capital gain will arise where the cost base of the Share (being the amount paid to acquire the Share, plus any costs in relation to the acquisition or disposal) is exceeded by the capital proceeds on disposal (in the case of an on-market sale, the cash proceeds received on disposal).

However, a CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for at least 12 months prior to the CGT event.

If the CGT discount applies, a capital gain arising to individuals and entities acting as Trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses, and for a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

If the Shareholder is the trustee of a trust that has held the Shares for at least 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. The Board recommends that Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss should be realised where the reduced cost base of the Share exceeds the capital proceeds from disposal, and capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain recoupment tests being satisfied. However, capital losses cannot be offset against other forms of assessable income.

f) Australian goods and services tax

No GST should be payable by Shareholders on acquisition or disposal of Shares in the Company, and no GST should be payable by Shareholders on receiving dividends distributed by the Company.

However, Shareholders may not be entitled to claim full input tax credits in relation to any GST included in any costs incurred in connection with the acquisition of the Shares, and Shareholders should obtain their own independent tax advice in this regard.

g) Stamp duty

Shareholders should not be liable for stamp duty in relation to the acquisition of Shares, unless they acquire (either individually or with an associate or related party) an interest of 90% or more in the Company.

10.23 Legal proceedings

As at the Prospectus Date, so far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of the Company.

10.24 Rights attaching to Shares

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out at Section 7.20. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice. The summary assumes that the Company is admitted to the official list of the ASX.

10.25 Consents

Each of the parties referred to below (each a **Consenting Party**), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in, or omissions from, this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the Consenting Parties has given and has not, before the lodgement of the Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. None of the Consenting Parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement which is made in this Prospectus is based, other than as specified below:

RM Corporate Finance Pty Ltd (AFSL 315235) has given its written consent to being named as Lead Manager to the Company in this Prospectus. RM Corporate Finance Pty Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;

Holding Redlich has given its written consent to being named as the Australian solicitors to the Company in this Prospectus. Holding Redlich has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;

10. Additional Information

10.25 Consents *continued*

Afik & Co has given its written consent to being named as the Israeli solicitors to the Company in this Prospectus. Afik & Co has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;

BDO Corporate Finance has given its written consent to being named as auditor of the Company and Investigating Accountant in this Prospectus and to the inclusion of the audited financial information of the Company and Investigating Accountant's Report both included in Section 8 of this Prospectus in the form and context in which the information and report is included in. BDO Corporate Finance has not withdrawn its consent prior to lodgement of this Prospectus with ASIC;

BDO Israel has given its written consent to being named as the Company's Israeli tax advisers and auditors in this Prospectus. BDO Israeli has not withdrawn its consent prior to lodgement of this Prospectus with ASIC;

Boardroom Pty Limited has given its written consent to being named as the share registry to the Company in this Prospectus. Boardroom Pty Limited has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;

Doron Afik has given his written consent to being named as an Israeli legal adviser to the Company, a Noteholder and a party to the fee finder agreement set out in Section 10.17 in this Prospectus. Doron Afik has not withdrawn his consent prior to the lodgement of this Prospectus with ASIC; and

Yigal Arnon & Co has given his written consent to being named as a recipient of Options and an Israeli legal adviser to the Company in this Prospectus. Yigal Arnon & Co has not withdrawn his consent prior to the lodgement of this Prospectus with ASIC;

Mark Liciardo and Mertons Corporate Services Pty Ltd have given its written consent to being named as the company secretary to the Company in this Prospectus. Mark Liciardo and Mertons Corporate Services Pty Ltd have not withdrawn their consent prior to the lodgement of this Prospectus with ASIC; and

Reinhold Cohn & Partners has given its written consent to being named as the Company's Israeli patent attorney in this Prospectus and to the inclusion of the Patent report included in Section 9 of this Prospectus in the form and context in which the information and report is included in. Reinhold Cohn & Partners has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Isorad Ltd has given its written consent to being named in this Prospectus. Isorad Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Jindalee Partners Pty Ltd has given its written consent to being named in this Prospectus. Jindalee Partners Pty Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Kafrit Industries (1993) Ltd has given its written consent to being named in this Prospectus. Kafrit Industries (1993) Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Crossworks Manufacturing Ltd has given its written consent to being named in this Prospectus. Crossworks Manufacturing Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Mul-T-Lock Technologies Ltd has given its written consent to being named in this Prospectus. Mul-T-Lock Technologies Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

BASF Global has given its written consent to being named in this Prospectus. BASF Global has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

The Perth Mint has given its written consent to being named in this Prospectus. The Perth Mint has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

10.26 Expenses of the Offer

The costs of the Offer are expected to be approximately \$876,996 (excluding GST) assuming the Minimum Subscription is satisfied (approximately \$983,571 (excluding GST) assuming the Maximum Subscription is satisfied). These costs will be borne by the Company from the proceeds of the Offer.

10.27 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the laws applicable in Victoria, Australia and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of Victoria, Australia.

10.28 Working Capital Statement

The Directors are satisfied that on completion of the Offer, the Company will have sufficient working capital to carry out its stated objectives.

10.29 Statement of Directors

In accordance with s.720 of the Corporations Act, the issue of this Prospectus is authorised by each Director.

Each Director has consented to the lodgement of the Prospectus with ASIC and the issue of the Prospectus and no Director has withdrawn that consent.

Signed on behalf of the Company.



Ed Hofland
Director

Dated 7 August 2018.

11. Glossary

Term	Meaning
\$, \$A or AUD	Australian dollars
AAS or Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group interpretations
AASB or Australian Accounting Standards Board	Australian Accounting Standards Board, an Australian Government agency under the <i>Australian Securities and Investments Commission Act 2001</i>
AEST	Australian Eastern Standard Time
AGM	Annual general meeting of the Company
Applicant	A person who submits an Application for Shares under the Offer
Application	Application made to subscribe for Shares under the Offer
Application Form	The relevant form attached to or accompanying this Prospectus pursuant to which Applicants apply for Shares
Application Monies	The amount accompanying an Application Form submitted by an Applicant, calculated as the Offer Price multiplied by the number of Shares applied for
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange, as operated by ASX Limited (ABN 98 008 624 691)
ASX Listing Rules	The official listing rules of ASX
ASX Recommendations	The Corporate Governance Principles and Recommendations issued by the ASX
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532)
ASX Settlement Operating Rules	The operating rules of ASX Settlement Pty Ltd
ATO	Australian Taxation Office
BDO Corporate Finance	BDO Corporate Finance (East Coast) Pty Ltd
BDO Israeli	BDO Ziv Haft
Board or Board of Directors	The Board of Directors of the Company
Broker	Any ASX participating organisation selected by the Lead Manager to act as a Broker to the Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian resident customers of Brokers who have received a firm allocation from their Broker
CFO	Chief Financial Officer
Chair or Executive Chair	In relation to the Company, Ed Hofland, or otherwise as the context requires
CHESS	Clearing House Electronic Sub-register System operated in accordance with the Corporations Act
Closing Date	Means 4 September 2018
Completion of the Offer	Completion in respect of the allotment of Shares under the Offer
Company or Security Matters	Security Matters Limited ACN 626 192 998 and its subsidiary Security Matters Israel (assuming completion of the Security matters Israel Acquisition has occurred)
Constitution	Constitution of the Company as amended from time to time
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Directors	Each of the Directors of the Company from time to time
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Existing Shareholders	Those persons holding shares in Security Matters Israel as at the Prospectus Date

11. Glossary

Term	Meaning
Expiry Date	The date that is 13 months after the Prospectus Date
Exposure Period	Please refer to the paragraph titled “Exposure Period” in the Important Notice
Financial Information	Has the meaning given in Section 4
FY2015	Financial year ending 31 December 2015
FY2016	Financial year ending 31 December 2016
FY2017	Financial year ending 31 December 2017
GST	Goods and services or similar tax imposed in Australia
HIN	Holder Identification Number
Historical Financial Information	Has the meaning given in Section 4
IFRS	International Financial Reporting Standards
Institutional Investors	An investor: <ul style="list-style-type: none">– in Australia who is either a “professional investor” or “sophisticated investor” under sections 708(11) and 708(8) of the Corporations Act; and– in certain other jurisdictions to whom an offer or invitations of Shares can lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any governmental agency (except one with which the Company is willing in its discretion to comply).
Investigating Accountant	BDO Corporate Finance (East Coast) Pty Ltd
Investigating Accountant’s Report	The Investigating Accountant’s Report set out in Section 8
IPO	Initial Public Offering
Jindalee Partners	Jindalee Partners Pty Ltd ACN 609 851 587
Lead Manager	RM Corporate Finance Pty Ltd ACN 065 412 820 (AFSL 315235)
LIBOR	The Intercontinental Exchange London Interbank Offered Rate (a benchmark rate that some of the world’s leading banks charge each other for short-term loans)
Listing	The date on which the Company is admitted to the official list of ASX
Maximum Subscription	Means \$6,500,000
Minimum Subscription	Means \$5,000,000
Noteholders	Investors that participated in the convertible note round as set out in Section 10.15
New Share/s	Shares issued under the Offer
Security Matters Group	The corporate group described in Section 7.9 comprising the Company and Security Matters Israel
ILS	Means an Israeli new shekel
NFC	Near-field communication, which enables two electronic devices (one of which is usually a portable device such as a smartphone), to establish communication by bringing them within close proximity (e.g. 4 centimetres) of each other
Offer	The Offer under this Prospectus of new Shares to be issued by the Company (but may also include any other offer set out in Section 7 from time to time)
Offer Price	\$0.20 per Share
Officer	Has the meaning given in Section 9 of the Corporations Act
Official List	The official list of entities that ASX has admitted and not removed
Official Quotation	Means official quotation by ASX in accordance with the ASX Listing Rules

11. Glossary

Term	Meaning
Opening Date	Means 7 August 2018
Option	Means an option to acquire a Share
Original Prospectus	means the prospectus dated 24 July 2018 lodged with ASIC on that date.
Patent Applications	Means the patent applications set out in the Patent Report in Section 9
Patent Report	The patent report of Reinhold Cohn & Partner dated 22 July 2018 set out in Section 9
Pro Forma Financial Information	Has the meaning given in Section 4
Pro Forma Historical Financial Information	Has the meaning given in Section 4
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement Prospectus in relation to this document
Prospectus Date	The date this Prospectus was lodged with the ASIC
RFID	Radio-frequency identification, which uses electromagnetic fields to automatically identify and track tags attached to objects. The tags contain electronically-stored information
Security Matters Israel	Security Matters Ltd. (Company number 515125771) (a company incorporated in and registered under the laws of Israel)
Security Matters Israel Acquisition	The Company's acquisition of Security Matters Israel as set out in Section 10.4
Share	A fully paid ordinary share in the Company
Shareholder	The registered holder of a Share
Share Option Plan	Has the meaning given in Section 6.13 above
Share Registry	Boardroom Pty Limited
Statutory Financial Information	Has the meaning given in Section 4
Statutory Forecast Financial Information	Has the meaning given in Section 4
Statutory Historical Financial Information	Has the meaning given in Section 4
Subsidiary	Has the meaning given in Section 9 of the Corporations Act
TFN	Tax file number
US	Means the United States of America
US Securities Act	United States Securities Act of 1933
US\$	Means a United States of America dollar

Security Matters Limited

ACN 626 192 998

General Offer Application Form

This is an Application Form for Shares in Security Matters Ltd (**Company**) on the terms set out in the Prospectus dated 7 August 2018. Defined terms in the Prospectus have the same meaning in this Application Form. You may apply for a minimum of 10,000 Shares and then in multiples of 2,500. This Application Form and your cheque or Electronic Funds Transfer must be received by **5.00pm (Perth time) on 4 September 2018**.

This Application Form is important. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. The Prospectus dated 7 August 2018 contains information relevant to a decision to invest in the Securities of the Company and you should read the entire Prospectus carefully before applying for Securities.

The Company's Privacy Policy (**Privacy Policy**) also sets out important information relating to the collection, use and disclosure of all personal information that you provide to the Company. Please ensure that you and all relevant individuals have read the Privacy Policy carefully before submitting this Application Form. The Privacy Policy can be found on our website www.securitymattersltd.com.au

To meet the requirements of the *Corporations Act 2001* (Cth), this Application Form must not be distributed to another person unless included in or accompanied by the Prospectus dated 7 August 2018. A person who gives another person access to this Application Form must, at the same time and by the same means, give the other person access to the Prospectus. The Company will send you a free paper copy of the Prospectus if you have received an electronic prospectus and you ask for a paper copy before the Offer closes at 5.00pm (Perth time) on 4 September 2018.

PLEASE FOLLOW THE INSTRUCTIONS TO COMPLETE THIS APPLICATION FORM (SEE REVERSE) AND PRINT CLEARLY IN CAPITAL LETTERS USING BLACK OR BLUE PEN.

A Number of Shares you are applying for	x \$0.20 per Share =	B Total amount payable
<input type="text"/>	=	\$ <input type="text"/>
<small>Minimum of 10,000 Shares to be applied for and thereafter in multiples of 2,500 Shares</small>		

C Write the name(s) you wish to register the Shares in (see reverse for instructions)

Applicant #1

 Name of Applicant #2 or <Account Designation>

 Name of Applicant #3 or <Account Designation>

D Write your postal address here – offer available to holders with a registered address in Australia

Number/Street

 Suburb/Town State Postcode

E CHES participant – Holder Identification Number (HIN)

Important please note if the name and address details above in sections C and D do not match exactly with your registration details held at CHES, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.

F Enter your Tax File Number(s), ABN, or exemption category

Applicant #1 Applicant #2 Applicant #3

G Method of Payment (Place an X in the appropriate box below and see section H below for payment details)

Cheque By Direct Deposit to the Company's bank account. **Please Note: Use your name / entity name as reference on the deposit. A copy of the deposit slip from the bank MUST be attached to this application form or it could be rejected.**

Name of drawer of cheque Cheque No. BSB No. Account No. Cheque Amount A\$

H EFT/Telegraph transfer payment details (Please note: Payment description must match the name of the Applicant in Section C of this form. Please provide a copy of the bank deposit slip with this application)

Account name	Bank	Branch	BSB No.	Account No
Security Matters Ltd	St George	Barangaroo	332-127	555 157 722

I Contact telephone number (daytime/work/mobile) **Contact Name**

Email address

Declaration **By submitting this Application Form with your Application Monies, I/we declare that I/we:**

- ✓ have read the Prospectus in full;
- ✓ have received a copy of the electronic Prospectus or a print out of it;
- ✓ have completed this Application Form in accordance with the instructions on the form and in the Prospectus.
- ✓ declare that the Application Form and all details and statements made by me/us are complete and accurate;
- ✓ agree and consent to the Company collecting, holding, using and disclosing my/our personal information in accordance with the Prospectus;
- ✓ where I/we have been provided information about another individual, warrant that I/we have obtained that individual's consent to the transfer of their information to the Company;
- ✓ acknowledge that once the Company accepts my/our Application Form, I/we may not withdraw it;
- ✓ apply for the number of Shares that I/we apply for (or a lower number allocated in a manner allowed under the Prospectus);
- ✓ acknowledge that my/our Application may be rejected by the Company in its absolute discretion;
- ✓ authorise the Company and their respective officers and agents to do anything on my/our behalf necessary (including the completion and execution of documents) to enable the Shares to be allocated to me/us;
- ✓ am/are over 18 years of age;
- ✓ agree to be bound by the constitution of the Company;
- ✓ acknowledge that neither the Company nor any person or entity guarantees any particular rate of return on the Shares, nor do they guarantee the repayment of capital;
- ✓ represent, warrant and agree that I/we am/are not in the United States or a US Person and am/are not acting for the account or benefit of a US Person; and
- ✓ represent, warrant and agree that I/we have not received this Prospectus outside Australia and am/are not acting on behalf of a person resident outside Australia.

Guide to the Application Form

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM.

Please complete all relevant sections of the appropriate Application Form using BLOCK LETTERS. These instructions are cross-referenced to each section of the Application Form.

Instructions

- A** If applying for Shares insert the **number** of Shares for which you wish to subscribe at Item **A** (not less than 10,000 Shares representing a minimum investment of \$2,000.00 and then in multiples of 2,500). Multiply by A\$0.20 to calculate the total Application Monies for Shares and enter the **A\$amount** at Item **B**.
- C** Write your **full name**. Initials are not acceptable for first names.
- D** Enter your **postal address** for all correspondence. All communications to you from the Company will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- E** If you are sponsored in CHESS by a stockbroker or other CHESS participant you may enter your CHESS HIN if you would like the allocation to be directed to your HIN. **NB: your registration details provided must match your CHESS account exactly.**
- F** Enter your Australian **tax file number** ("TFN") or ABN or exemption category, if you are an Australian resident. Where applicable, please enter the TFN /ABN of each joint Applicant. Collection of TFN's is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your Application Form.
- G** Complete **cheque details** as requested. Make your cheque payable to "Security Matters Ltd". Cross it and mark it 'Not negotiable'. Cheques must be in Australian currency, and must be drawn on a bank or financial institution in Australia. **If paying by direct deposit a copy of the deposit slip from the bank must be attached to this application form or it could be rejected.**
- H** **EFT / Telegraph transfer payment details** (Please note: Payment description **must** match the name of the Applicant in Section C of this form)
- I** Enter your **contact details**, including name, phone number and e-mail address, so we may contact you regarding your Application Form or Application Monies. By providing an e-mail address you are electing to receive notices of meetings, annual reports and other communications from the Company electronically to the provided e-mail address

Correct Form of Registrable Title

Note that ONLY legal entities can hold the Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and surname is required for each natural person. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registrable Title	Incorrect Form of Registrable Title
Individual	Mr John David Smith	J D Smith
Company	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings	Mr John David Smith & Mrs Mary Jane Smith	John David & Mary Jane Smith
Trusts	Mr John David Smith <J D Smith Family A/C>	John Smith Family Trust
Deceased Estates	Mr Michael Peter Smith <Est Lte John Smith A/C>	John Smith (deceased)
Partnerships	Mr John David Smith & Mr Ian Lee Smith	John Smith & Son
Clubs/Unincorporated Bodies	Mr John David Smith <Smith Investment A/C>	Smith Investment Club
Superannuation Funds	John Smith Pty Limited <J Smith Super Fund A/C>	John Smith Superannuation Fund

Lodgment

Mail or deliver your completed Application Form with your cheque(s) or bank draft attached to one of the following addresses:

Mailing address:

Security Matters Ltd
C/-RM Corporate Finance
PO Box 154
WEST PERTH WA 6872

Delivery address:

Security Matters Ltd
C/-RM Corporate Finance
Level 1, 1205 Hay Street
WEST PERTH WA 6005

The Offer closes at 5:00 p.m. (Perth Time) on 4 September 2018, unless varied in accordance with the Corporations Act and ASX Listing Rules.

It is not necessary to sign or otherwise execute the Application Form.

If you have any questions as to how to complete the Application Form, please contact RM Corporate Finance, Nathan Barbarich – Head of Corporate Finance on +61 8 6380 9200 or via email at nbarbarich@rmcf.com.au

Privacy Statement

Security Matters Ltd advises that Chapter 2C of the Corporations Act requires information about its shareholders (including names, addresses and details of shares held) to be included in the Company's share register. Information is collected to administer your security holding and if some or all of the information is not collected then it might not be possible to administer your security holding. Your personal information may be disclosed to the Company. To obtain access to your personal information or more information on how the Company collects, stores, uses and disclosures your information please contact the Company at the address or telephone number shown in the Prospectus.

General Offer Application Form

This is an Application Form for Shares in Security Matters Ltd (**Company**) on the terms set out in the Prospectus dated 7 August 2018. Defined terms in the Prospectus have the same meaning in this Application Form. You may apply for a minimum of 10,000 Shares and then in multiples of 2,500. This Application Form and your cheque or Electronic Funds Transfer must be received by **5.00pm (Perth time) on 4 September 2018**.

This Application Form is important. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. The Prospectus dated 7 August 2018 contains information relevant to a decision to invest in the Securities of the Company and you should read the entire Prospectus carefully before applying for Securities.

The Company's Privacy Policy (**Privacy Policy**) also sets out important information relating to the collection, use and disclosure of all personal information that you provide to the Company. Please ensure that you and all relevant individuals have read the Privacy Policy carefully before submitting this Application Form. The Privacy Policy can be found on our website www.securitymattersltd.com.au

To meet the requirements of the *Corporations Act 2001* (Cth), this Application Form must not be distributed to another person unless included in or accompanied by the Prospectus dated 7 August 2018. A person who gives another person access to this Application Form must, at the same time and by the same means, give the other person access to the Prospectus. The Company will send you a free paper copy of the Prospectus if you have received an electronic prospectus and you ask for a paper copy before the Offer closes at 5.00pm (Perth time) on 4 September 2018.

PLEASE FOLLOW THE INSTRUCTIONS TO COMPLETE THIS APPLICATION FORM (SEE REVERSE) AND PRINT CLEARLY IN CAPITAL LETTERS USING BLACK OR BLUE PEN.

A	Number of Shares you are applying for	x \$0.20 per Share =	B	Total amount payable
<input type="text"/> <small>Minimum of 10,000 Shares to be applied for and thereafter in multiples of 2,500 Shares</small>			\$	<input type="text"/>

C **Write the name(s) you wish to register the Shares in (see reverse for instructions)**

Applicant #1

Name of Applicant #2 or <Account Designation>

Name of Applicant #3 or <Account Designation>

D **Write your postal address here – offer available to holders with a registered address in Australia**

Number/Street

Suburb/Town

State

Postcode

E **CHES participant – Holder Identification Number (HIN)**

***Important please note** if the name and address details above in sections C and D do not match exactly with your registration details held at CHES, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.*

F **Enter your Tax File Number(s), ABN, or exemption category**

Applicant #1 <input type="text"/>	Applicant #2 <input type="text"/>	Applicant #3 <input type="text"/>
--------------------------------------	--------------------------------------	--------------------------------------

G **Method of Payment (Place an X in the appropriate box below and see section H below for payment details)**

Cheque By Direct Deposit to the Company's bank account. **Please Note: Use your name / entity name as reference on the deposit. A copy of the deposit slip from the bank MUST be attached to this application form or it could be rejected.**

Name of drawer of cheque Cheque No. BSB No. Account No. Cheque Amount A\$

H **EFT/Telegraph transfer payment details (Please note: Payment description must match the name of the Applicant in Section C of this form. Please provide a copy of the bank deposit slip with this application)**

Account name	Bank	Branch	BSB No.	Account No
Security Matters Ltd	St George	Barangaroo	332-127	555 157 722

I **Contact telephone number (daytime/work/mobile)** **Contact Name**

Email address

Declaration **By submitting this Application Form with your Application Monies, I/we declare that I/we:**

- ✓ have read the Prospectus in full;
- ✓ have received a copy of the electronic Prospectus or a print out of it;
- ✓ have completed this Application Form in accordance with the instructions on the form and in the Prospectus.
- ✓ declare that the Application Form and all details and statements made by me/us are complete and accurate;
- ✓ agree and consent to the Company collecting, holding, using and disclosing my/our personal information in accordance with the Prospectus;
- ✓ where I/we have been provided information about another individual, warrant that I/we have obtained that individual's consent to the transfer of their information to the Company;
- ✓ acknowledge that once the Company accepts my/our Application Form, I/we may not withdraw it;
- ✓ apply for the number of Shares that I/we apply for (or a lower number allocated in a manner allowed under the Prospectus);
- ✓ acknowledge that my/our Application may be rejected by the Company in its absolute discretion;
- ✓ authorise the Company and their respective officers and agents to do anything on my/our behalf necessary (including the completion and execution of documents) to enable the Shares to be allocated to me/us;
- ✓ am/are over 18 years of age;
- ✓ agree to be bound by the constitution of the Company;
- ✓ acknowledge that neither the Company nor any person or entity guarantees any particular rate of return on the Shares, nor do they guarantee the repayment of capital;
- ✓ represent, warrant and agree that I/we am/are not in the United States or a US Person and am/are not acting for the account or benefit of a US Person; and
- ✓ represent, warrant and agree that I/we have not received this Prospectus outside Australia and am/are not acting on behalf of a person resident outside Australia.

Guide to the Application Form

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM.

Please complete all relevant sections of the appropriate Application Form using BLOCK LETTERS. These instructions are cross-referenced to each section of the Application Form.

Instructions

- A** If applying for Shares insert the **number** of Shares for which you wish to subscribe at Item **A** (not less than 10,000 Shares representing a minimum investment of \$2,000.00 and then in multiples of 2,500). Multiply by A\$0.20 to calculate the total Application Monies for Shares and enter the **A\$amount** at Item **B**.
- C** Write your **full name**. Initials are not acceptable for first names.
- D** Enter your **postal address** for all correspondence. All communications to you from the Company will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- E** If you are sponsored in CHESS by a stockbroker or other CHESS participant you may enter your CHESS HIN if you would like the allocation to be directed to your HIN. **NB: your registration details provided must match your CHESS account exactly.**
- F** Enter your Australian **tax file number** ("TFN") or ABN or exemption category, if you are an Australian resident. Where applicable, please enter the TFN /ABN of each joint Applicant. Collection of TFN's is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your Application Form.
- G** Complete **cheque details** as requested. Make your cheque payable to "Security Matters Ltd". Cross it and mark it 'Not negotiable'. Cheques must be in Australian currency, and must be drawn on a bank or financial institution in Australia. **If paying by direct deposit a copy of the deposit slip from the bank must be attached to this application form or it could be rejected.**
- H EFT / Telegraph transfer payment details** (Please note: Payment description **must** match the name of the Applicant in Section C of this form)
- I** Enter your **contact details**, including name, phone number and e-mail address, so we may contact you regarding your Application Form or Application Monies. By providing an e-mail address you are electing to receive notices of meetings, annual reports and other communications from the Company electronically to the provided e-mail address

Correct Form of Registrable Title

Note that ONLY legal entities can hold the Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and surname is required for each natural person. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registrable Title	Incorrect Form of Registrable Title
Individual	Mr John David Smith	J D Smith
Company	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings	Mr John David Smith & Mrs Mary Jane Smith	John David & Mary Jane Smith
Trusts	Mr John David Smith <J D Smith Family A/C>	John Smith Family Trust
Deceased Estates	Mr Michael Peter Smith <Est Lte John Smith A/C>	John Smith (deceased)
Partnerships	Mr John David Smith & Mr Ian Lee Smith	John Smith & Son
Clubs/Unincorporated Bodies	Mr John David Smith <Smith Investment A/C>	Smith Investment Club
Superannuation Funds	John Smith Pty Limited <J Smith Super Fund A/C>	John Smith Superannuation Fund

Lodgment

Mail or deliver your completed Application Form with your cheque(s) or bank draft attached to one of the following addresses:

Mailing address:

Security Matters Ltd
C/-RM Corporate Finance
PO Box 154
WEST PERTH WA 6872

Delivery address:

Security Matters Ltd
C/-RM Corporate Finance
Level 1, 1205 Hay Street
WEST PERTH WA 6005

The Offer closes at 5:00 p.m. (Perth Time) on 4 September 2018, unless varied in accordance with the Corporations Act and ASX Listing Rules.

It is not necessary to sign or otherwise execute the Application Form.

If you have any questions as to how to complete the Application Form, please contact RM Corporate Finance, Nathan Barbarich – Head of Corporate Finance on +61 8 6380 9200 or via email at nbarbarich@rmcf.com.au

Privacy Statement

Security Matters Ltd advises that Chapter 2C of the Corporations Act requires information about its shareholders (including names, addresses and details of shares held) to be included in the Company's share register. Information is collected to administer your security holding and if some or all of the information is not collected then it might not be possible to administer your security holding. Your personal information may be disclosed to the Company. To obtain access to your personal information or more information on how the Company collects, stores, uses and disclosures your information please contact the Company at the address or telephone number shown in the Prospectus.

Corporate Directory

Directors of the Company

Haggai Alon (CEO and Executive Director)
Everardus (Ed) Hofland (Executive Chairman)
David Rosenblatt (Executive Director and Vice-Chairman)
Amir Bader (Non-Executive Director)
Jovanka Naumoska (Non-executive director)
Dr Gregory J Clark AC (Non-executive director)

Company Secretary

Mark Licciardo
Level 7, 330 Collins Street
Melbourne VIC 3000 Australia

Israel Legal Advisor

Afik & Co
103 Ha'Hashmona'im St.
P.O.B 20144
Tel-Aviv Israel 6120101

Australian Legal Advisor

Holding Redlich
Level 8, 555 Bourke St
Melbourne VIC 3000 Australia

Lead Manager

RM Corporate Finance Pty Ltd (AFSL 315235)
Level 1, 1205 Hay Street
West Perth WA 6005

Auditors

BDO Ziv Haft
Amot BDO Building
48 Menachem Begin Road
Tel Aviv 66180
Israel

Principal Office

c/- Security Matters Limited
Kibbutz Ketura
D.N. Hevel Eilot
8884000 Israel

Investigating Accountant

BDO Corporate Finance (East Coast) Pty Ltd
Collins Square, Tower Four
Level 18
727 Collins Street
Docklands VIC 3008 Australia

Postal Address

c/- Holding Redlich
Level 8, 555 Bourke St
Melbourne VIC 3000 Australia

Share Registry

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

ASX Code

ASX:SMX

For personal use only

