



FURTHER SUPPLEMENTARY DISCLOSURE TO SCHEME BOOKLET

For the recommended Scheme of Arrangement, Option Scheme of Arrangement and Capital Reduction between
Security Matters Limited ACN 626 192 998
and its shareholders and optionholders
in relation to the proposed acquisition by **Empatan PLC** of all the issued shares in Security Matters Limited

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION

IF YOU HAVE ANY QUESTIONS IN RELATION TO THIS FURTHER SUPPLEMENTARY DISCLOSURE DOCUMENT OR THE SCHEME BOOKLET OR ANY OF THE SCHEME MEETINGS OR THE GENERAL MEETING PLEASE CONTACT YOUR LEGAL, INVESTMENT OR OTHER PROFESSIONAL ADVISER

14 FEBRUARY 2023



Mann Lawyers
Legal Advisers

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Important notices

The Scheme Booklet

On 9 January 2023, the Federal Court made orders requiring (a) the dispatch to SMX Shareholders and SMX Optionholders of a Scheme Booklet and other materials and (b) the convening of meetings for both the "Scheme" and "Option Scheme" (as defined within the Scheme Booklet).

The Scheme Booklet set out details of the Scheme, Option Scheme and Capital Reduction, and constitutes the explanatory statement for the Schemes for the purposes of section 412(1) of the *Corporations Act 2001* (Cth) (*Corporations Act*). It explains the effect of the Schemes between Security Matters Limited ACN 626 192 998 (SMX or the Company) and the SMX Shareholders to be considered at the Scheme Meeting, the Option Scheme Meeting and the General Meeting.

You should refer to the Scheme Booklet.

If you have not received a copy of the Scheme Booklet, you should contact SMX to be provided with a copy either by email link or by post.

Supplementary disclosure

On 27 and 30 January 2023, the Court made further orders, postponing the Scheme Meeting and the Option Scheme Meeting and requiring SMX to make supplementary disclosure to SMX Shareholders and SMX Optionholders, by sending a supplementary disclosure document.

SMX sent the supplementary disclosure document by email and post on 30 January 2023.

If you have not received a copy of the supplementary disclosure document, you should contact SMX to be provided with a copy either by email link or by post.

Further supplementary expert report and further supplementary disclosure

The supplementary disclosure document annexed a supplementary expert report from Nexia Australia. In that report, Nexia Australia considered that its assessments of the Schemes assumed a rate of redemption by Lionheart Class A stockholders of 85% or less, and that, if the rate of redemption were higher, Nexia Australia would revisit its conclusions.

At the time of the distribution of the supplementary disclosure document, the redemption rate by Lionheart shareholders had not been announced. On 31 January 2023, Lionheart announced both the results of its meeting to approve the proposed merger with SMX, and its redemption rate. The redemption rate was approximately 99.5%, well above the 85% threshold. As such, Nexia Australia was instructed to prepare a further supplementary report.

That report forms part of this further supplementary disclosure document.

Timetabling orders

The Court has made further orders postponing the scheme meetings. The details of the orders are set out below.

ASIC and ASX

A copy of this supplementary disclosure document has been provided to and examined by ASIC. Neither ASIC nor any of its officers take any responsibility for the contents of the supplementary disclosure document.

A copy of this document has also been lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this document.

Federal Court Notice

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT 2001

The fact that under section 411(1) of the Corporations Act the Court has ordered that the meetings be convened and has approved the explanatory statement required to accompany the notices of the meeting for each of the Scheme Meeting and the Option Scheme Meeting does not mean that the Court:

(a) has formed any view as to the merits of the proposed schemes or as to how SMX Shareholders and SMX Optionholders should vote (on this matter, SMX Shareholders and SMX Optionholders must reach their own decision); or

(b) has prepared, or is responsible for, the content of the explanatory statement in each of the notices of meeting for the Scheme Meeting and the Option Scheme Meeting or for this supplementary disclosure document.

Investment decisions

The information contained in this further supplementary disclosure document does not constitute financial product advice.

The further supplementary disclosure document, the supplementary disclosure document and the Scheme Booklet, do not take into account the investment objectives, financial situation or particular needs of individual SMX Shareholders, SMX Optionholders or any other person. Independent financial and taxation advice should be sought before making any decision in relation to each of the Scheme or Option Scheme.

Responsibility statement

Except as provided below, the information in this further supplementary disclosure document has been prepared by SMX and its directors and is the responsibility of SMX. Neither Empatan PLC (registered number 722009) (**Empatan**), Lionheart III Corp (**Lionheart**) nor their respective directors, officers or advisers assume any responsibility for the accuracy or completeness of the SMX Information.

Nexia Sydney Corporate Advisory Pty Ltd (**Nexia Australia**) has prepared the further supplementary expert's report in Annexure B and is responsible for that report only. The report relies on representations from SMX and Lionheart. None of SMX or Empatan nor any of their respective affiliates, subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the information contained in the further supplementary independent expert's report, except insofar as the representations made to Nexia Australia by SMX and Lionheart, on which Nexia Australia has been directed to rely.

Forward-looking statements

Certain statements in this further supplementary disclosure document relate to the future. Forward-looking statements can be identified by the use of forward-looking words such as "may", "should", "expect", "anticipate", "estimate", "scheduled" or "continue," their negative equivalent, or comparable terminology. Such statements involve known and unknown risks, uncertainties, assumptions and other important factors that may cause the actual results, performance or achievements of SMX to be materially different from the results, performance or achievements expressed or implied by such statements. The operation and financial performance of SMX is subject to various risks and which may be beyond the



control of SMX, Empatan or Lionheart. As a result, the actual results of SMX's operations and earnings following implementation of each of the Scheme and Option Scheme and the actual advantages of each of the Scheme and Option Scheme may differ from those that are anticipated or may not be achieved.

Any forward-looking statements in this document are made, and reflect views held, only as at the date of this further supplementary disclosure document. SMX, Empatan and Lionheart make no representation and give no assurance or guarantee that the occurrence of the events or the achievement of results expressed or implied in such statements will actually occur. You are cautioned not to rely on any forward-looking statement.

Further notices

Further notices and important information are contained in the Scheme Booklet. This includes information in relation to tax, shareholders in specific countries and other matters. You should refer to the Scheme Booklet for that information.

Date

This further supplementary disclosure document is dated 14 February 2023.



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Updates to the disclosure contained in the Scheme Booklet

Dear SMX Shareholders and SMX Optionholders,

Following the dispatch of the Scheme Booklet dated 3 January 2023 and the supplementary disclosure document dated 27 January 2023, SMX has continued to progress the proposed transaction with Lionheart, and has also continued to operate the company.

Set out below are updates, corrections and further disclosure about the proposed transaction of which the Scheme and the Option Scheme form part.

Terms used in this document have the same meaning as in the Scheme Booklet.

SMX's directors continue to recommend that SMX Shareholders and relevant SMX Optionholders vote in **favour** of the Scheme and the Option Scheme, in the absence of a Superior Proposal.

As discussed below, the independent expert has concluded that the Schemes are not fair, not reasonable and not in the best interests of securityholders due to the redemption rate (99.5%) of among Lionheart stockholders.

1. Adjustment to meeting dates

(a) The Scheme Meetings

In order to allow time for this document to be sent to participants in the Scheme and the Option Scheme, the Federal Court made orders on 6 February 2023, further postponing the Scheme Meeting and the Option Scheme Meeting to **20 February 2023**.

The Court also ordered that the second court hearing, when the Court will consider whether to approve the schemes, will be held on **24 February 2023**.

A copy of the Court's order – postponing the date of the scheme meetings and setting the second court hearing date – is attached to this further supplementary disclosure document as **Annexure A**.

(b) The General Meeting

Postponement of the General Meeting

The SMX board has resolved to further postpone the General Meeting, so that it will also be held on **20 February 2023**. Subject to the following, the details for attendance at the General Meeting are otherwise the same, and proxies lodged for that meeting remain valid.

Alteration to Capital Reduction Resolution

SMX takes this opportunity to notify SMX Shareholders and SMX Optionholders that, at the General Meeting, an amendment will be moved to the Capital Reduction Resolution to be considered at the meeting.



The Capital Reduction Resolution provides for SMX's share capital to be reduced and cancelled in consideration for the issue of the "Scheme Consideration" (as defined in the Scheme) and the "Cancellation Consideration" (as defined in the Option Scheme), and in accordance with the Schemes. The form of the resolution (set out in the Notice of General Meeting at Annexure K of the Scheme Booklet) is that the share capital (emphasis added):

be reduced on the "Implementation Date" (as defined in the Schemes), with the reduction to be effected and satisfied by the cancellation of all the shares in the Company on issue as at the "Record Date" (as defined in the Schemes) in consideration for the issue of the Scheme Consideration (as defined in the Share Scheme) and the "Cancellation Consideration" (as defined in the Option Scheme), and in accordance with the Schemes.

The intention behind the resolution is that all SMX's share capital will be cancelled, including SMX shares that will be issued following the cashless exercise of SMX options under the Option Scheme (called the "Option Exercise Shares"). Under the Option Scheme, that cashless exercise and share issue will occur on the "Implementation Date", which (if the Schemes are approved at the Scheme Meetings and by the Court) SMX expects will be 5 March 2023.

Unfortunately, the Capital Reduction Resolution wrongly refers to the cancellation taking place on the "Record Date", which will be not only before the "Implementation Date"¹ but also before the issue of the "Option Exercise Shares" under the Option Scheme.

Accordingly, it is necessary to amend the Capital Reduction Resolution before it is considered by the General Meeting. Therefore, at that meeting, there will be a motion to amend the resolution by substituting for the words "on issue as at the "Record Date"", the words "on issue immediately after the issue of the "Option Exercise Shares" under the Option Scheme".

(c) Details of the Scheme Meetings and the General Meeting

Otherwise, the details of the meetings are otherwise the same, with the same virtual hearing link and access mechanisms that were previously provided to shareholders and relevant optionholders, as follows:

- the Scheme Meeting is scheduled to be held at 9:00am (AEDT) on 20 February 2023, virtually using the following link: <https://web.lumiagm.com/310257505>
- the Option Scheme Meeting is scheduled to be held at 9:30am (AEDT) on 20 February 2023 (or at the conclusion or adjournment of the Scheme meeting, whichever is later), virtually using the following link: <https://web.lumiagm.com/399731351>
- the general meeting to consider the Capital Reduction is scheduled to be held at 10:00am (AEDT) on 20 February 2023 (or at the conclusion or adjournment of the Option Scheme meeting, whichever is later), virtually using the following link: <https://web.lumiagm.com/321723269>

2. Participation in meetings - proxies

Unless you otherwise direct, proxies that you have already given will remain in effect. You can alter, revoke or issue proxies until 9.00am on 19 February 2023 (AEDT).

You may alter or otherwise deal with your proxies using the link contained in the proxy form you received with the Scheme Booklet or the notice of General Meeting. Those links are as follows:

- for the Scheme Meeting: <https://www.votingonline.com.au/smxsharescheme> ;

¹ The "Record Date" is the day, two business days after the Scheme becomes effective, on which the identity of the "Scheme Participants" will be confirmed.



- for the Option Scheme Meeting: <https://www.votingonline.com.au/smxoptionscheme>
- for the General Meeting <https://www.votingonline.com.au/smxgm2023>

If you have not received a copy of the Scheme Booklet or a proxy form, you should contact SMX – either by email or by post – to be provided with a copy.

3. Entry Into PIPE financing

As set out in the Scheme Booklet, Lionheart has actively pursued “PIPE financing” pursuant to which it will agree to issue and sell, in private placements, up to US\$25 million in the aggregate in securities.

In the view of SMX’s Board, accessibility to capital, by way of equity (such as the PIPE financing) rather than debt is a key advantage of the business combination agreement.

Lionheart has informed SMX that it (Lionheart) has entered into a terms sheet with Yorkville Advisors Global LP (Yorkville), a New Jersey-based investment manager, for the provision of PIPE financing. The term sheet is subject to finalisation of a formal contract. The key provisions are that:

Initial advances:

- Yorkville will provide a USD 1.5 million advance at closing of the business combination, with a further USD2 million available as an advance following registration of the PIPE (the “pre-paid advance”);
- the merged entity may repay the pre-paid advance in cash, or Yorkville may, in satisfaction of it, issue a notice to acquire shares in Empatan. If Yorkville issues the notice, it will receive shares at an 8% discount to the **VWAP of the company’s stock on the trading day immediately preceding the closing** of the advance, or 93% of the lowest daily VWAP of the shares during the 7 trading days immediately prior to each purchase, subject to a floor price (which will be the lower of USD0.50 or 20% of the VWAP on the day prior to the effectiveness of the registration of the shares).

Obligation to purchase common stock:

- the merged entity may, by issuing notices to Yorkville, require Yorkville to purchase common stock from Empatan up to a total of USD25 million over a 36 month period. Each such purchase may be for up to the greater of (i) one million shares or (ii) such amount as is equal to 100% of the average daily volume traded of the ordinary shares during the 5 trading days immediately before the notice, although the amount can be increased by mutual consent.
- Yorkville will purchase such shares at a discount to the VWAP of the stock. The level of discount may vary between 3 and 4%.
- Yorkville will hold a maximum of 4.99% of the merged entity at any time;

Discretion as to level of drawing

- the level of drawing on the PIPE financing, including the level of the pre-paid advance, is to be at Lionheart’s, and following the business combination, the merged entity’s sole discretion.

The term sheet has been signed by all relevant parties. As is customary for such transactions, the parties are to execute further documentation in accordance with those terms. Lionheart has provided a letter, confirming its entry into the terms sheet with Yorkville and that the terms sheet is binding between the parties. Lionheart has also confirmed that it has paid the commencement fee of \$15,000 due under the terms of its agreement with Yorkville.

SMX expects that:

- a formal agreement about the PIPE financing will be finalised over the next few days, and in any event, well before the expected close of the Business Combination; and
- the further documented agreement will not depart materially from the terms set out in the terms sheet.



As explained below, the independent expert does not accept that the terms sheet represents a binding agreement² and has said that its assessment of the Schemes would not be materially different, even if a binding agreement is in place.³

SMX's directors consider that the availability of PIPE financing is material to the future operating and financial performance of **SMX's business**. SMX has relied on bridge loans (disclosed in the Scheme Booklet), with an interest rate of 10%, to fund its business. In August 2022, SMX did not succeed in raising substantial capital by means of a share placement. Although, as disclosed in the Scheme Booklet, SMX expects to be able to continue to raise money through debt, the **ability to raise funds through equity to meet the business' future** needs is a material advantage that arises from the Lionheart transaction. Otherwise, SMX will need to borrow to service its existing debt and for future business operations, on terms less advantageous than the PIPE financing. Further, SMX will likely need to conduct a regular exercise of raising funds, which is not as advantageous as having a secure facility (i.e. the PIPE financing) that provides up to USD25 million in funding.

SMX's directors consider that listing on NASDAQ and having access to US equity markets provides a substantial reason to pursue the transaction with Lionheart (of which the Share Scheme and the Option Scheme form part).

4. No further extension to period for Lionheart to complete business combination

As disclosed in the Scheme Booklet:

- Lionheart originally had until 8 November 2022 to complete a Business Combination but may extend that period by up to six additional months (in six, one-month extensions); and
- on each of 8 November 2022 and 8 December 2022, Lionheart caused USD412,500 to be deposited in the trust account to extend to 8 January 2023 the date for the consummation of the transaction.

By each of 8 January 2022 and 8 February 2022, Lionheart caused further deposits to be made to the trust account, to extend the date to 8 March 2023.

Since then, Lionheart has communicated to SMX that Lionheart will not make a further extension payment, in which case, if the Business Combination has not fully completed by 7 March 2023, the Business Combination will terminate.

5. Reduction of costs at closing

To date, SMX and Lionheart have paid USD2,768,000 USD towards the transaction.

SMX and Lionheart have successfully negotiated with vendors and partners (a) to reduce to USD955,000 the transaction costs that will be due at closing of the business combination with Lionheart and (b) to defer a further USD7,233,000 in costs to various dates across the next two years

SMX also considers it likely that some of the vendors will agree to receive equity in partial satisfaction of the amounts owed to them.

The costs due at closing include repayment of the bridge loans, which may be called in sooner if the transaction with Lionheart fails to close. SMX has negotiated a 12-month deferral of AUD1 million of the bridge loans, conditional on the transaction with Lionheart closing. Separately, Nomura (Lionheart's

² Further supplementary expert's report, page 3.

³ Further supplementary expert's report, page 4-5.



underwriter) has agreed to waive its fees of USD4.7 million that would otherwise have been paid at closing. Thus, there has been a material improvement from the transaction costs estimated in the Scheme Booklet.

6. Further supplementary expert report - Nexia Australia

The supplementary disclosure document dated 30 January 2023 annexed a supplementary experts report that SMX commissioned from Nexia Sydney Corporate Advisory Pty Ltd (**Nexia Australia**). In that report, Nexia Australia stated that its assessments of the Schemes assumed a redemption rate by Lionheart Class A stockholders of **85% or less**, and that, if the redemption rate were higher, Nexia Australia would revisit its conclusions.

At the time of the supplementary disclosure document, the redemption rate had not been announced. On 31 January 2023, Lionheart announced the redemption rate, which was **99.5%** - well above the 85% that Nexia Australia assumed in its supplementary expert report. Accordingly, SMX instructed Nexia Australia to prepare a further supplementary expert report.

Since then (and as explained above):

- (a) Lionheart has signed the terms sheet with Yorkville for PIPE financing; and
- (b) SMX has successfully negotiated reductions and deferrals in the amounts it would otherwise be required to pay at the closing of the business combination with Lionheart.

SMX asked Nexia Australia to take into account, in preparing its further supplementary expert report on whether the Schemes are fair and reasonable, the impact of the PIPE financing and the cost reductions and deferrals.

Nexia Australia's further supplementary expert report is annexed as **Annexure B**.

As set out in that report, Nexia Australia has concluded that:

- **The Share Scheme is not fair and not reasonable and is not in the best interests of the SMX Shareholders**
- **The Option Scheme is not fair and not reasonable and is not in the best interests of the SMX Optionholders**

Nexia Australia has reached that conclusion, in their opinion, regardless of whether the PIPE financing is not provided at all or is provided in full, on materially the same terms as described in the terms sheet.

Nexia Australia considers the terms sheet is not binding on Yorkville because, apart from the implementation of the Schemes, the funding is conditional on Yorkville undertaking satisfactory due diligence, obtaining internal approvals and entering into contractual documentation to its satisfaction, and because the terms sheet specifically states that it does not constitute an offer or a commitment to provide capital. Nexia Australia has considered the impact **on the value of Empatan's shares** if the term sheet is formalised in an agreement on materially the same terms.

7. SMX directors' consideration of the further supplementary expert report

The directors of SMX disagree with the further supplementary expert report. They do not accept the conclusions reached, or the approach taken by, Nexia Australia in relation to several matters, including those described below.

In reaching those views, SMX directors have relied on advice, including from experts in the United States and Israel about the Schemes and the methodology used by Nexia Australia. That advice has considered (amongst other things):



- the many benefits of a listing on NASDAQ (as compared with a listing on ASX), including higher trading volumes, greater liquidity, greater access to capital (including by more varied investment tools than may be available in Australia), the technology orientation of the NASDAQ, and its reputation as a market with that orientation
- the advantages of those benefits to a larger entity with new capital (i.e. entity created by the merger of Lionheart, Empatan and SMX) and the timeframe to obtain them (which will be faster under the Lionheart transaction than if SMX sought to obtain a NASDAQ listing in the ordinary course)
- the method used by Nexia Australia to value a NASDAQ listing
- the relevance of shareholder dilution in determining fairness and reasonableness
- the assumptions and calculations used by Nexia Australia in calculating, and drawing conclusions about, the value of shares in the merged entity.

(a) Lack of assessment of value of liquidity premium

In the further supplementary expert report, Nexia Australia has identified, as an advantage of the proposed transaction with Lionheart, the *'Potential for future liquidity in shares as a result of being listed on a larger exchange.'*⁴ The report also notes that *'SMX's shares have a low level of liquidity, with 6.06% of SMX's ordinary shares being traded in the last 90 days and 5.76% in the last 180 days on an annualised basis'*⁵ and that *'[t]he exposure to a larger market and investors with a stronger interest in earlier stage technology companies such as SMX may increase demand for shares in Empatan and therefore increase the volume of trading in Empatan's shares improving the opportunity for SMX shareholders to realise their investment.'*⁶

However, the report fails or adequately to consider or to provide any attribution of the *value* of any increased liquidity or the potential for shares to trade at a higher price in view of the increased liquidity. This is at odds with **SMX's directors' assessment and the principle of a 'liquidity premium'**, under which shares in a liquid market trade at a higher price.

(b) Understatement of value of listing

Nexia Australia has determined the value of the NASDAQ listing *"on a replacement cost basis"*,⁷ which it has assessed to be AUD2,979,000, excluding brokerage costs (the value of which Nexia Australia has not assessed or included in its determination of the value).⁸ It determined the replacement cost of listing based on data sourced from S&P Capital IQ for trading companies with revenue less than US\$50 million that listed on NASDAQ in the last three years. It did not include brokerage costs because the cash balance reflected on **Lionheart's balance sheet immediately prior to the implementation of the Scheme is net of the costs that would be incurred.**

For the following reasons, **SMX's directors** consider that Nexia Australia has materially understated both the replacement costs and the value of a NASDAQ listing.

- In practice, the **costs of listing** are higher than Nexia Australia has allowed. By way of illustration, the underwriting costs of the present transaction (which SMX has succeeded, in *this instance*, in having waived) exceed USD4 million. Additional costs of a NASDAQ listing (such as issuer expenses, legal costs, roadshows and other commissions) are typically substantial, and can range between USD3 million and USD20 million. **SMX's directors** consider that the value of the listing is at least that of the transaction costs, plus the underwriting costs, since this is what SMX would have had to pay to achieve a listing on NASDAQ other than through the transaction with Lionheart.

⁴ Further supplementary expert's report, pages 5 and 33

⁵ Further supplementary expert's report, page 20

⁶ Further supplementary expert's report, page 33

⁷ Further supplementary expert's report, page 33

⁸ Further supplementary expert's report, page 31



- As to the **value of the listing**, SMX considers that the approach adopted by Nexia Australia – which uses a “replacement cost” basis – is not appropriate. As Nexia Australia accepts, SMX Shareholders and Optionholders stand to gain the benefits of listing on NASDAQ, which include greater access to capital, greater liquidity, and a potentially materially higher share price. But there is no certainty that SMX would be eligible or able to list on NASDAQ other than by the proposed transaction with Lionheart. Further Nexia Australia has considered a cost based on data from other transactions, and not the return on investment or the costs of delay in SMX seeking to list on NASDAQ another way, thereby resulting in an undervalue of the listing that the Lionheart transaction will achieve.

(c) Lack of attribution of value to access to capital or availability of PIPE financing

As noted above and in the Scheme Booklet, SMX:

- a) requires continued access to capital to develop its business;
- b) has been unsuccessful in achieving a substantial equity raise in Australia; and
- c) is carrying considerable debt, some bearing 10% interest rates.

As such, **SMX’s** directors consider that access to capital via equity raising at attractive rates is critical to the future success of its business.

Value of access to capital

Although the further supplementary expert report identifies “Access to capital to continue to develop **SMX’s technology through to commercialisation**” and “Listing on the NASDAQ exchange providing a deeper capital pool for further fundraising” as advantages of the Schemes,⁹ it does not provide any assessment of the **value** of those advantages nor a comparison of the costs that SMX will incur in raising capital, if the Schemes do not proceed.

That **leads, in the opinion of SMX’s directors, to a material understatement of the value to SMX** Shareholders and SMX Optionholders of the Schemes.

Assessment of PIPE funding

The importance of PIPE financing, **and Lionheart’s** entry to an agreement for it, is explained in section 3 above.

In that regard, SMX informed Nexia Australia of the existence of the binding agreement for PIPE funding and provided (a) an executed copy of the terms sheet between Yorkville and Lionheart and (b) a letter from Lionheart confirming its entry into a binding agreement with Yorkville. Further, SMX instructed Nexia Australia, in preparing the further supplementary expert report, to consider the existence of the PIPE financing and to prepare the report to address each of the alternative scenarios, that is,

- (a) that the PIPE funding is **available** to Lionheart at and after completion; and
- (b) that the PIPE funding is **not available** to Lionheart at and after completion.

Contrary to those instructions, in the further supplementary expert report, Nexia Australia:

- (a) has not identified the letter from Lionheart confirming its entry into a binding agreement with Yorkville as a document that Nexia Australia considered in preparing the report;
- (b) has determined that the terms sheet is not binding (for the reasons set out in section 6 above); and
- (c) to the extent the report does consider the term sheet or the PIPE financing, has not assessed the value – in terms of cost savings or impact on **Empatan’s** capital costs – of the existence of a binding agreement for PIPE financing .

⁹ Further **supplementary expert’s report**, pages p32



Further, in considering the impact of the PIPE financing, Nexia Australia has only calculated the impact on the fair value of Empatan shares of the exercise of the pre-paid advance. The report does not assess of the value to Empatan of the availability of the full funding of USD25 million. It explains that Nexia Australia analysed the impact of the PIPE financing on the basis that, under its terms, "Empatan has the right to sell shares to [Yorkville] following the implementation of the Share Scheme at a small discount to the VWAP at the time of sale, with the number of shares that can be sold based on trading volumes at that time" and **that therefore "there is no impact on fair value on implementation of the Share Scheme as all share issues under the non-binding term sheet will occur after the implementation of the Share Scheme"**.

Nexia Australia has also concluded that there **will be 'no impact on fair value on implementation of the Share Scheme'**¹⁰ consequent on any draw-down on the PIPE funding since that will occur post-implementation. SMX's directors disagree. PIPE financing is commonly **"part and parcel"** of a business combination with a SPAC (hence, the relevant disclosure in the Scheme Booklet). Further, the availability of funding for the expansion of the business that the PIPE financing will provide is, in the view of SMX's directors, a material matter that may increase the value of the combined entity, and is an inherent advantage of the business combination.

(d) Lack of attribution of value of deferred liabilities

As stated above, SMX and Lionheart have succeeded in negotiating the deferral of liabilities that would otherwise fall due either at the close of the Lionheart transaction or if the Schemes do not proceed. Most of the costs have been deferred by more than 12 months, so will not be considered current liabilities. In addition, subject to closing of the transaction, SMX has deferred repayment of some of its bridge loans.

In undertaking its assessment, however, Nexia Australia has not provided any analysis of the value of these deferrals, particularly those that will not accrue interest. SMX's directors consider that the deferral of liabilities gives a material financial advantage in reducing the net present value of SMX's obligations.

Nexia Australia's report states that, if the Schemes are not approved, SMX is likely to need further funding to support its ongoing operations and development activities (which fundraising may be dilutive to shareholders) and that there will be remaining costs that require payment immediately or in the future. In **that regard, SMX's directors note** that, unless the merger with Lionheart proceeds, SMX will be required to raise more than AUD5 million in short order to repay bridge loans.

(e) Failure to adequately consider the value of advantages

SMX's directors consider that **Nexia Australia's** approach to valuing the transaction is overly mechanical.

While the further supplementary expert report identifies several essential advantages to SMX and, ultimately, to SMX Shareholders and SMX Optionholders from the Schemes, Nexia Australia has not assessed the value of those advantages in its consideration of fairness as, under ASIC Regulatory Guide 111, "Content of expert reports", fairness and reasonableness are considered separately.

In the view of SMX's directors, that approach disregards the significance of the advantages, and the opportunities, available from a listing on the NASDAQ.

(f) Optionholders – Failure to consider prospects of option value

SMX notes that most SMX options on issue are exercisable at prices well above **SMX's** current and historical trading price. These include many options that are due to expire this year.

¹⁰ Further supplementary expert's report, page 32



As such, the prospects of the options being exercised on a cash basis is very low. The value to SMX Optionholders of a cashless exercise is therefore considerable but has not been considered adequately in **Nexia Australia's** valuation.

In providing valuations for the fair value of options with distant expiry dates, Nexia Australia has failed to take account of the likely dilution of shares under future capital raises (i.e. if the Schemes do not proceed) or the debt burden SMX will have to maintain, or the impact on **SMX's** future share price of these developments. Nexia Australia has noted that the Option Scheme has an advantage for optionholders in that they will receive shares in SMX and ultimately in Empatan without having to pay for the exercise of the options.

SMX's directors' disagreement with the further supplementary expert report

SMX intends to adduce evidence at the second court hearing in support of **its directors' views about each** matter on which they disagree with **Nexia Australia's** further supplementary report.

8. Meeting of Lionheart shareholders

Lionheart held a meeting of stockholders to approve the transaction on 30 January 2023 (Delaware time). Lionheart shareholders approved the proposed transaction with SMX. This was announced to the market on 1 February 2023 (Melbourne time) along with **Lionheart's** redemption rates (99.5%).

SMX notes that the final redemption rate from the Lionheart SPAC may be reduced at any time before closing of the business combination but cannot be increased. In the event of a reduced redemption rate, the relative holding of SMX Shareholders and SMX Optionholders in the combined entity may be reduced. But a reduced redemption rate will also mean that the combined entity will receive more funding via Lionheart, which may reduce the amount of PIPE financing that it draws down.

9. Further ASX announcements

Pursuant to its continuous disclosure obligations, since the date of the supplementary disclosure document, SMX has made the following ASX announcements:

	Date	Description of announcement
1.	6 February 2023	TrueGold using SMX tech received Accreditation from LBMA Further postponement of scheme meetings/general meeting
2.	1 February 2023	Notification of cessation of securities Lionheart meeting results
3.	30 January 2023	Appendix 4C Release

Each of the announcements is accessible here: <https://www2.asx.com.au/markets/trade-our-cash-market/announcements.smx>

10. Second Court hearing date

By orders made on 6 February 2023, the Court has adjourned the second court hearing – when it will consider whether to approve the Schemes – to **10.15am on 24 February 2023**.



Under the terms of the transaction, if the respective Schemes are approved by SMX Shareholders and SMX Optionholders and the Court, the **"Effective Date"** is anticipated to be **27 February 2023** and the Scheme **Record Date** is anticipated to be **1 March 2023**.

11. Further information

If you require further information after reading this further supplementary disclosure document, please either call SMX on +972 8 630 6336 (ISR), send an email to info@securitymattersltd.com or visit SMX's website at www.smx.tech.

On behalf of the SMX Board, I thank you for your ongoing support, and I look forward to your participation at the relevant Scheme Meeting.

Yours faithfully,

Everardus Hofland

Everardus Hofland
Chairman



Annexure A – Federal Court orders made on 6 February 2023



Federal Court of Australia
District Registry: Victoria
Division: General

No: VID777/2022

SECURITY MATTERS LIMITED (ACN 626 192 998)
Plaintiff

ORDER

JUDGE: JUSTICE O'CALLAGHAN

DATE OF ORDER: 06 February 2023

WHERE MADE: Melbourne

OTHER MATTERS:

- A. In this order, "Scheme Shareholders", "Scheme Option-holders", "Share Scheme", "Option Scheme", "Share Scheme Meeting" and "Option Scheme Meeting" have the same meaning as in the order made on 9 January 2023 in this proceeding (**convening order**).

THE COURT ORDERS THAT:

1. The Share Scheme Meeting is further postponed to 20 February 2023, commencing at 9.00am (Melbourne time), and the Option Scheme Meeting is postponed to 20 February 2023, commencing at 9.30am (Melbourne time) (or at the conclusion or adjournment of the Share Scheme Meeting, whichever is later), with each meeting to be conducted in the manner provided in paragraph 1 of the convening order.
2. By no later than 5.00pm on 6 February 2023, the plaintiff is to give notice of the further postponement of the meetings by publishing, on the plaintiff's ASX announcements platform and on the plaintiff's website, an announcement substantially in the form annexed to this order.
3. A proxy form, appointment of a corporate representative, or power of attorney to act on behalf of the relevant Scheme Shareholder or Scheme Option-holder in respect of the Share Scheme Meeting and the Option Scheme Meeting respectively that have been lodged with the plaintiff remain valid for the purposes of the respective meeting, in accordance with their terms, but any appointment pursuant to such instrument may be

Prepared in the Victoria District Registry, Federal Court of Australia
Level 7, Owen Dixon Law Courts, 305 William Street, Telephone 1300 720 980



varied or revoked by the appointing shareholder or option-holder at any time up to 9.00 am (AEST) on 19 February 2023.

4. Subject to further order, any application for the dispatch of further supplementary material is to be made by email to the associate to Justice O'Callaghan and, if made, heard at 9.30 am on 10 February 2023.
5. Subject to further order, the hearing of the plaintiff's application for orders approving the Schemes is listed at 10.15 am (Melbourne time) on 24 February 2023 before Justice O'Callaghan.
6. Liberty to apply is reserved, including to the Australian Securities and Investments Commission.
7. These orders are to be entered forthwith.

Date that entry is stamped: 6 February 2023

Sia Lagos
Registrar



Annexure

ASX announcement



ASX Release

06 February 2023

FURTHER POSTPONEMENT OF SCHEME MEETINGS AND GENERAL MEETING TO 20 FEBRUARY 2023

Postponement of the Scheme Meetings and the General Meeting

Security Matters Limited (ASX:SMX) (the Company) hereby gives notice that:

- earlier today, the Federal Court made orders postponing the meetings to consider the Share Scheme and the Option Scheme, until **Monday, 20 February 2023**, and
- SMX's board has resolved to further postpone the general meeting to consider the Capital Reduction (scheduled originally for 1 February 2023 and subsequently postponed until 7 February 2023), to **Monday, 20 February 2023**.

The Court also made orders authorising SMX to make this announcement.

Reasons for the further postponements

The further postponement of the meetings is to allow time for the preparation of updated information (including a further expert report) about the Schemes and the underlying transaction, for consideration by shareholders and relevant option-holders.

At 9.30am on 10 February 2023, the Court will hear SMX's application for orders authorising the dispatch of the updated information.

Times of meetings

By reason of the postponements:

- the meeting to consider the **Share Scheme** is scheduled to be held at **9:00am (AEDT) on 20 February 2023**, virtually using the following link:
LUMI link: <https://web.lumiagm.com/310257505>



- the meeting to consider the **Option Scheme** is scheduled to be held at **9:30am (AEDT) on 20 February 2023** (or at the conclusion or adjournment of the Share Scheme meeting, whichever is later), virtually using the following link:
LUMI link: <https://web.lumiagm.com/399731351>
- the general meeting to consider the **Capital Reduction** is scheduled to be held at **10:00am (AEDT) on 20 February 2023** (or at the conclusion or adjournment of the Option Scheme meeting, whichever is later), virtually using the following link:
LUMI link: <https://web.lumiagm.com/321723269>

Proxies

Unless you otherwise direct, proxies that you have already given will remain in effect.

You can alter, revoke or issue proxies until 9.00am on **19 February 2023**.

You may alter or otherwise deal with your proxies using the link contained in the proxy form that you received with the Scheme Booklet. Those links are as follows:

- for the Scheme meeting: <https://www.votingonline.com.au/smxsharescheme>
- for the Option Scheme meeting: <https://www.votingonline.com.au/smxoptionscheme>
- for the general meeting <https://www.votingonline.com.au/smxgm2023>

For further information contact:

MEDIA ENQUIRIES

Melissa Hamilton
Media and Capital Partners, Sydney, Australia
P: +61 (0)4 1775 0274
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INVESTOR RELATION ENQUIRIES

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Inflection Partners, New Orleans, USA
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E: eric@inflectionpartnersllc.com

-END-

About Security Matters Limited

Security Matters 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.



Annexure B - Further supplementary expert report by Nexia Australia



Security Matters Limited

Acquisition of 100% of the issued capital of SMX through a scheme of arrangement ("Share Scheme")

Acquisition of certain options to acquire shares in SMX through a scheme of arrangement ("Option Scheme")

Second Supplementary Independent Expert's Report and Financial Services Guide

13 February 2023

In our opinion:

The Share Scheme is not fair and not reasonable and is not in the best interests of the SMX Shareholders

The Option Scheme is not fair and not reasonable and is not in the best interests of the SMX Optionholders



FINANCIAL SERVICES GUIDE

Dated: 13 February 2023

What is a Financial Services Guide ("FSG")?

This FSG is designed to help you decide whether to use any of the general financial product advice provided by Nexia Sydney Corporate Advisory Pty Ltd ABN 68 114 696 945 ("NSCA"), a corporate authorised representative of Nexia Sydney Financial Solutions Pty Ltd ("NSFS"), Australian Financial Services Licence Number 247300 ("AFSL").

This FSG includes information about:

- NSCA and how they can be contacted
- the services NSCA is authorised to provide
- how NSCA are paid
- any relevant associations or relationships of NSCA
- how complaints are dealt with as well as information about internal and external dispute resolution systems, and how you can access them; and
- the compensation arrangements that NSCA has in place.

Where you have engaged NSCA we act on your behalf when providing financial services. Where you have not engaged NSCA, NSCA acts on behalf of our client when providing these financial services and are required to provide you with a FSG because you receive a report or other financial services from NSCA.

Financial Services that NSCA is authorised to provide

NSCA is a corporate authorised representative of NSFS, which holds an AFSL authorising it to provide, amongst other services, financial product advice for securities and interests in managed investment schemes, including investor directed portfolio services, to retail clients.

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products.

NSCA's responsibility to you

NSCA has been engaged by the independent directors of Security Matters Limited ("SMX" or the "Client") to provide general financial product advice in the form of an independent expert's report to be included in the Second Supplementary Scheme Booklet ("Document") sent to SMX's shareholders dated on or about 14 February 2023 ("Second Supplementary Report").

You have not engaged NSCA directly but have received a copy of the Second Supplementary Report because you have been provided with a copy of the Document. NSCA or the employees of NSCA are not acting for any person other than the Client.

NSCA is responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Second Supplementary Report.



General Advice

As NSCA has been engaged by the Client, the Second Supplementary Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Second Supplementary Report having regard to your circumstances before you act on the general advice contained in the Second Supplementary Report.

You should also consider the other parts of the Document before making any decision in relation to the Scheme.

Fees NSCA may receive

NSCA charges fees for preparing Reports. These fees will usually be agreed with and paid by the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay NSCA \$25,000 (excluding GST and out of pocket expenses) for preparing the Second Supplementary Report. NSCA and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of this Second Supplementary Report.

Referrals

NSCA does not pay commissions or provide any other benefits to any person for referring clients to them in connection with a Second Supplementary Report.

Associations and Relationships

Through a variety of corporate and trust structures NSCA is controlled by and operates as part of the Nexia Sydney Group Pty Ltd. NSCA's directors and authorised representative may be directors in the Nexia Sydney Group Pty Ltd group entities ("Nexia Sydney Group"). Mr Brent Goldman, authorised representative of NSFS and director of Nexia Sydney Group Pty Ltd, has prepared this Second Supplementary Report. The financial product advice in the Second Supplementary Report is provided by NSCA and not by the Nexia Sydney Group.

From time to time NSCA, the Nexia Sydney Group and related entities ("Nexia entities") may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

Over the past two years \$83,000 in professional fees have been received from the Client in relation to the Independent Expert's Report and Supplementary Report.

No individual involved in the preparation of this Second Supplementary Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Schemes.

Complaints Resolution

If you have a complaint, please let NSFS know. Formal complaints should be sent in writing to:

Nexia Sydney Financial Solutions Pty Ltd
Head of Compliance
PO Box H195
Australia Square NSW 1215



If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer, Craig Wilford, on +61 2 9251 4600 and he will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External Complaints Resolution Process

If NSFS cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Australian Financial Complaints Authority ("AFCA"). AFCA is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au or by contacting them directly at:

Australian Financial Complaints Authority Limited
GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 56 55 62
Facsimile (03) 9613 6399
Email: info@afca.org.au

The Australian Securities and Investments Commission also has a free call infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation Arrangements

NSCA has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details
You may contact NSCA at:

Nexia Sydney Corporate Advisory Pty Ltd
PO Box H195
Australia Square NSW 1215



13 February 2023

The Independent Directors
Security Matters Limited
c/ K&L Gates
Level 25
525 Collins Street
Melbourne VIC 3000

Dear Independent Directors,

Second Supplementary Independent Expert's Report on schemes of arrangement

1. OUTLINE OF THE SCHEMES

On 26 July 2022, Security Matters Limited ("SMX" or the "Group") announced that it had entered into a scheme implementation deed with Empatan PLC ("Empatan" or "Parent") and Lionheart III Corp ("Lionheart") (together the "Combined Group"). The parties entered into a deed of variation to the scheme implementation deed on 8 January 2023.

Empatan is a newly incorporated Irish entity established to be the holding company of the Combined Group following the implementation of the Scheme. Lionheart is a special purpose acquisition company ("SPAC") listed on the NASDAQ stock exchange in the US.

On completion of the transaction, SMX shareholders will hold shares in Empatan, which will be listed on NASDAQ. The transaction is to be implemented through a scheme of arrangement to acquire all of SMX's ordinary shares (the "Share Scheme") and a separate scheme of arrangement in relation to the exercise of certain options held over shares in SMX (the "Option Scheme") (together the "Schemes").

Under the Share Scheme SMX shareholders immediately prior to the implementation of the Scheme will receive 16,198,372 shares in Empatan in return for 100% of the issued share capital of SMX. The Share Scheme is conditional on a number of matters including:

- court approval;
- SMX and Lionheart shareholder approval;
- NASDAQ quotation for the Parent being obtained;
- Parent having net tangible assets of US\$5 million following implementation of the Share Scheme;
- Option Scheme being implemented;
- Certain SMX employee, founder and service provider option holders agreeing to cancel their options in return for the issue of new options in the Parent;
- SMX performance option holders agreeing to the cancellation of their options, which has been agreed subject to implementation of the Schemes; and
- SMX convertible note holders satisfying the amount owed through the issue of shares in SMX prior to the implementation of the Share Scheme, which has been agreed subject to implementation of the Schemes.

**Nexia Sydney
Corporate Advisory Pty Ltd**
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Under the Option Scheme eligible option holders will receive 24,480,008 SMX shares and then participate in the Share Scheme. The Option Scheme is conditional on a number of matters including:

- eligible SMX option holder approval;
- court approval; and
- the Share Scheme becoming effective.

In respect of the Schemes the following will also occur:

- An equity raising is being undertaken with the intention of raising US\$25 million. There is no minimum fundraising and the Schemes are not conditional on the equity raising.
- On implementation of the Scheme the board of the Parent will comprise seven directors of which Lionheart will appoint three directors (including two independent directors) and SMX will appoint four directors.
- Empatan will change its name to SMX Public Company Limited.
- Transaction costs of US\$11 million are expected to be incurred.
- If the Schemes do not proceed then in certain circumstances a break-fee of US\$2 million may be payable by either SMX or Lionheart.

2. PURPOSE OF AND BASIS FOR SECOND SUPPLEMENTARY REPORT

The purpose of this Second Supplementary Report is to advise the shareholders of SMX on the fairness and reasonableness of the Scheme and whether or not it is in the best interests of the shareholders.

This report has been prepared in accordance with Section 411 of the Corporations Act (Cth) ("Corporations Act") and guidance provided by the Australian Securities and Investments Commission ("ASIC").

ASIC has issued Regulatory Guide 111 *Content of Expert Reports* ("RG111"), which outlines the principles and matters to be considered in an independent expert's report. We have had regard to the guidance relevant to a scheme of arrangement in preparing our report.

The courts require that documentation provided to shareholders is accompanied by an independent expert report. As such, the Directors of SMX have commissioned an independent expert report in respect of the Scheme in order to inform the shareholders as to whether the Scheme is fair and reasonable and in the best interests of the shareholders of SMX.

We previously prepared a report dated 7 October 2022 that was provided to shareholders along with the Scheme Booklet on 9 January 2023. A Supplementary Report was provided to shareholders along with a supplementary scheme booklet on 23 January 2023.



As stated in our Supplementary Report, a material assumption that was made in preparing the report was that redemptions would be a maximum of 85% after the Lionheart shareholders held their meeting in relation to the Schemes and that if a higher redemption rate occurred then we would be issuing a Second Supplementary Report.

On 30 January 2023, Lionheart announced that 12,442,441 of 12,500,000 shares were elected to be redeemed. This represents a redemption rate of 99.5%. As this is higher than the maximum of 85% assumed then we have prepared this Second Supplementary Report.

On 5 February 2023, Lionheart entered into a non-binding term sheet with an investor to invest up to US\$25 million. Apart from the implementation of the Schemes, as the funding is also conditional on the investor undertaking satisfactory due diligence, obtaining internal approvals and entering into contractual documentation to the investor's satisfaction as well as the term sheet specifically stating that it does not constitute an offer or a commitment to provide capital, we consider the term sheet to not be binding on the investor. Despite the above, the Directors and Lionheart believe that the term sheet is binding on the investor and the Directors have informed us that they believe that Lionheart will enter into contractual documentation prior to the implementation of Schemes.

Significant terms of the non-binding term sheet include:

- An advance of US\$3.5 million can be received which incurs no interest. The investor can elect to settle any amount drawn down through the issue of shares at a discount to the VWAP of Empatan shares or in 12 months Empatan will be required to repay the amount in cash.
- Once any advance is repaid then Empatan may sell shares up to US\$25 million to the investor. The sale price is at a discount to relevant VWAP measures and the number of shares that can be sold is restricted by the volume of trading in Empatan's shares and an overall requirement that the investor can hold no more than 4.99% of Empatan's shares.
- A due diligence fee of US\$15,000 was paid on entering into the non-binding term sheet and a further US\$375,000 facility fee is payable on entering a formal agreement, which Empatan can elect to pay in cash or through the issue of shares based on the 3-day VWAP immediately prior to implementation of the Schemes.

In addition to the level of redemptions being known, other material events that have occurred since our Supplementary Report include:

- Lionheart's underwriter has agreed to waive the deferred underwriting fee of US\$4,375,000 payable on implementation of the Schemes.
- Negotiations have taken place in relation to other transaction costs in relation to the deferral of payment or reduction in fees payable.

This Second Supplementary Report supersedes and replaces our Supplementary Report of 23 January 2023.



3. SUMMARY AND OPINION ON SHARE SCHEME

This section is a summary of our opinion and cannot substitute for a complete reading of this Second Supplementary Report. Our opinion is based solely on information available as at the date of this Second Supplementary Report.

The principal factors that we have considered in forming our opinion are summarised below.

3.1.1 Fairness of the Share Scheme

As discussed in section 5, in determining whether the Share Scheme is fair to SMX shareholders, we have compared the fair value of a share on a control basis before the implementation of the Share Scheme to the fair value of the share in Empatán on a minority basis following the implementation of the Share Scheme. This is summarised below:

	Low	Preferred	High
Fair value of a share in SMX on a control basis	A\$0.17	A\$0.23	A\$0.29
Exchange ratio	10.3624	10.3624	10.3624
Fair value of shares in SMX on a control basis for each Empatán share	A\$1.81	A\$2.37	A\$2.96
Fair value of a share in Empatán on a minority basis	A\$0.11	A\$0.46	A\$0.81

The fair value of shares on a minority basis that SMX shareholders will hold in Empatán after the implementation of the Share Scheme is significantly lower than the fair value of a share held in SMX on a control basis applying the exchange ratio.

If the non-binding term sheet as set out in section 2 is formalised into an agreement on terms materially similar to those set out and if Lionheart draws down the full amount of the advance then there will be no impact on the fair value of a share in Empatán on a minority basis after the implementation of the Share as US\$3.5 million in cash will be received and a liability to repay US\$3.5 million will also be entered into. The investor may choose to purchase shares at an 8% discount on implementation of the Share Scheme resulting in a \$0.02 reduction in the fair value of share in Empatán on a minority basis after the implementation of the Share Scheme if the investor exercises this right.

On repayment of all amounts received under the advance, the non-binding term sheet gives Empatán the right to sell shares to the investor following the implementation of the Share Scheme at a small discount to the VWAP at the time of sale, with the number of shares that can be sold based on trading volumes at that time. Therefore, there is no impact on fair value on implementation of the Share Scheme as all share issues under the non-binding term sheet will occur after the implementation of the Share Scheme.

Therefore, **we have concluded that the Share Scheme is not fair.**



3.1.2 Reasonableness of the Share Scheme

In accordance with RG 111, a transaction is reasonable if:

- the transaction is fair; or
- despite not being fair, but considering other significant factors, shareholders should obtain an overall benefit if the transaction proceeds.

In forming our opinion we have considered the following relevant factors (see section 9.2).

Advantages	Disadvantages
<ul style="list-style-type: none"> • Access to capital to continue to develop SMX's technology through to commercialisation. • Listing on the NASDAQ exchange providing a deeper capital pool for further fundraising. • Potential for future liquidity in shares as a result of being listed on a larger exchange 	<ul style="list-style-type: none"> • The Share Scheme is not fair and the fair value of a share in Empatan on a minority basis after the implementation of the Share Scheme is significantly lower than the fair value of a share in SMX on a control basis before the implementation of the Share Scheme after applying the exchange ratio. • The level of redemptions at 99.5% does not provide sufficient funds to cover the transaction costs incurred on the implementation of the Schemes and additional funding will be required in the short to medium term to fund transaction costs and the repayment of loans placing financial pressure on Empatan. • Dilution of ownership through the issue of shares to Lionheart shareholders. • SMX Shareholders will hold a security in a foreign entity and on a foreign exchange following implementation of the Share Scheme

The Directors have advised us that there are currently no alternatives to the Share Scheme other than the status quo.

If the Share Scheme is not approved, SMX is likely to need further funding to support its ongoing operations and development activities. Any subsequent fundraising may be dilutive to shareholders.

SMX has incurred significant transaction costs to date which will not be able to be recovered. If the Schemes do not occur there will be remaining costs which require payment immediately or in the future. However, the level of fees payable will be significantly lower than the exposure to transaction costs if the Share Scheme is implemented as a significant level of expenses that would be incurred by SMX are contingent on the implementation of the Schemes or are borne by Lionheart.

Depending on the circumstances of the Share Scheme not proceeding, SMX may be either required to pay or may receive a break fee of US\$2 million.

Taking into consideration the matters above, **we have concluded that the Share Scheme is not reasonable.**



3.2 Opinion on Share Scheme

Accordingly, in our opinion, **the Share Scheme is not fair and not reasonable and is not in the best interests of the SMX shareholders.**

The ultimate decision on whether to approve the Share Scheme should be based on shareholders' own assessment of their circumstances. We strongly recommend that shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Scheme Booklet, and consider their own specific circumstances before voting in favour of or against the Share Scheme.

4. SUMMARY AND OPINION ON OPTION SCHEME

This section is a summary of our opinion and cannot substitute for a complete reading of this Second Supplementary Report. Our opinion is based solely on information available as at the date of this Second Supplementary Report.

The principal factors that we have considered in forming our opinion are summarised below.

4.1.1 Fairness of the Option Scheme

As noted in section 5 in determining the fairness of the Option Scheme we have compared the fair value of a relevant SMX option on a control basis before the implementation of the Schemes to the fair value of the shares optionholders will hold in Empatán on a minority basis after the implementation of the Schemes.

We have undertaken the comparison for each option subject to Option Scheme and the comparison by option is set out in section 10.1.1.

The fair value of Empatán shares on a minority basis that a number of optionholders will receive for each option is lower than the fair value of each option subject to the Option Scheme on a control basis prior to the implementation of the Schemes.

As the Option Scheme is not fair to all optionholders, **we have concluded that the Option Scheme is not fair.**

4.1.2 Assessment of reasonableness of the Option Scheme

In considering the reasonableness of the Option Scheme the advantages and disadvantages as set out for the Share Scheme along with the alternatives to the transaction are also applicable.

The Option Scheme has the additional advantage for the SMX optionholders in that they receive shares in SMX and ultimately in Empatán without having to pay for the exercise of the options.

In accordance with RG 111, a transaction is reasonable if:

- the transaction is fair; or
- despite not being fair, but considering other significant factors, shareholders should obtain an overall benefit if the transaction proceeds.



Taking into account other significant factors, **we have concluded that the Option Scheme is not reasonable.**

4.1.3 Opinion on Option Scheme

Accordingly, in our opinion, **the Option Scheme is not fair and not reasonable and is not in the best interests of the SMX optionholders.**

The ultimate decision on whether to approve the Option Scheme should be based on optionholders' own assessment of their circumstances. We strongly recommend that optionholders consult their own professional advisers, carefully read all relevant documentation provided, including the Scheme Booklet, and consider their own specific circumstances before voting in favour of or against the Option Scheme.

Yours faithfully

Nexia Sydney Corporate Advisory Pty Ltd

A handwritten signature in black ink, appearing to read 'B. Goldman'.

Brent Goldman

Director

(Authorised Representative of Nexia Sydney Financial Solutions Pty Ltd, AFSL 247300)



STRUCTURE OF REPORT

Our Second Supplementary Report is set out under the following headings:

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5. BASIS OF EVALUATION

RG 111 provides guidance as to matters that should be considered in determining whether a transaction is fair and reasonable in a range of circumstances.

RG 111 state that in deciding an appropriate form of analysis, the expert needs to consider that the main purpose of the report is to deal with the concerns that could reasonably be anticipated by those persons affected by the transaction. An expert should focus on the purpose and outcome of the transaction; that is the substance of the transaction, rather than the legal mechanism used to effect the transaction.

RG 111 requires analysis of a transaction under two distinct criteria being:

- is the offer 'fair?'; and
- is it reasonable?

That is the opinion of fair and reasonable is not considered as a compound phrase.

In determining what is fair and reasonable for a control transaction, RG 111 states that:

- an offer is fair if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer, assuming a 100% interest in the target and irrespective of whether consideration is cash or scrip; and
- an offer is reasonable if it is fair, or if the offer is not fair, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of a higher bid before the close of an offer.

In determining whether the transaction is fair, the fair value is assumed to be based on a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

RG 111 states that if an expert concluded that a transaction is 'fair and reasonable' in the form of a takeover bid, an expert would also be able to conclude that the scheme is in the best interests of the shareholders.

If an expert concludes that a transaction is 'not fair but reasonable' then an expert may still determine that a transaction is in the best interests of the shareholders with the expert clearly stating that consideration is not equal to or greater than the value of the securities the subject of the scheme but that there are sufficient reasons for security holders to vote in favour of the scheme in the absence of a higher offer.

If an expert concludes that a scheme is 'not fair and not reasonable' then the expert would conclude that the scheme was not in the best interests of shareholders.

For the purpose of considering whether or not the Share Scheme is fair, we have compared the fair value of a share in SMX on a control basis prior to the Share Scheme to the fair value of the consideration shares held in Empatán on a minority basis after the implementation of the Share Scheme. The fairness of the Share Scheme has been assessed on this basis given that following implementation of the Share Scheme SMX shareholders will hold a minority interest in Empatán.

For the purposes of considering whether or not the Option Scheme is fair, we have compared the fair value of the options held in SMX on a control basis to the fair value of shares on a minority basis that SMX optionholders will hold in Empatán following the implementation of the Option Scheme and Share Scheme. The fairness of the Option Scheme has been assessed on this basis as the SMX options holders will hold a minority interest in Empatán following the implementation of the Schemes both of which are conditional on each other.



In our assessment of the reasonableness of the Scheme, our consideration has included the following matters:

- the bidder's pre-existing voting power in securities in SMX;
- other significant security holding blocks in SMX;
- the liquidity of the market in SMX's securities;
- taxation losses, cash flow or other benefits through achieving 100% ownership of SMX;
- any special value to the bidder, such as technology, the potential to write-off outstanding loans from SMX, etc;
- the likely market price if the Schemes are not successful;
- the value to an alternate bidder and the likelihood of an alternative bid being made; and
- other significant matters set out in sections 9.2 and 10.2.

5.1 Individual security holders' circumstances

The ultimate decision whether to approve the Schemes should be based on each security holder's assessment of the Schemes, including their own risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Schemes or matters dealt with in this Second Supplementary Report, security holders should seek independent professional advice.

5.2 Limitations on reliance on information

The documents and information relied on for the purposes of this Second Supplementary Report are set out in Appendix B. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that documents and material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Schemes are fair and reasonable and in the best interests of the shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit or extensive examination might disclose.

We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles. SMX prepares its financial statements in accordance with Australian Accounting Standards and Lionheart prepares its financial statements in accordance US Generally Accepted Accounting Standards.

An important part of the information used in forming an opinion of the kind expressed in this Second Supplementary Report is the opinions and judgement of Directors and management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

NCSA are not the auditors of SMX or Lionheart. We have analysed and reviewed information provided by the Directors and management of SMX and Lionheart and made further enquiries where appropriate. Preparation of this Second Supplementary Report does not imply that we have in any way audited the accounts or records of SMX or Lionheart.



In forming our opinion we have assumed:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Scheme Booklet to be sent to security holders is complete, accurate and fairly represented in all material respects; and
- the publicly available information relied upon by NSCA in its analysis was accurate and not misleading.

This Second Supplementary Report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this Second Supplementary Report which may impact upon this Second Supplementary Report or which may impact upon the assumptions referred to in the Second Supplementary Report.

6. OVERVIEW OF SMX

6.1 Background

SMX is involved in the development and commercialisation of trace and track technology for a wide range of industries. The Group commenced operations in Israel in 2015 when it entered into a licensing agreement with an Israeli Government state owned enterprise to license and further develop the underlying technology for "reading" materials for commercial application. On 11 October 2018, SMX listed on the Australian Securities Exchange ("ASX").

The SMX group comprises the following entities held either directly or indirectly:

Entity	% interest
Security Matters France (French business number 900404104)	100%
Security Matters Canada (British Columbia Canada number BC1294203)	100%
Security Matters Ltd. (Israeli company 51-512577-1)	100%
SMX Beverages Pty Ltd (ACN 637 440 272)	100%
Yahaloma Technologies Inc. (British Columbia Canada number BC1219747)	50%
True Gold Consortium Pty Ltd (ACN 641 483 374)	44.8%

Source: Scheme Booklet

6.2 Operations

SMX is yet to generate revenue and its primary operations relate to research and development activities in relation to the commercial application of the mark, track and trace technology. As part of the development, SMX is working with industry participants through joint ventures and commercial operating agreements to develop the technology in specific industries.

SMX's technology can be applied to any material. It stores data at a molecular level on solids, gases and liquids and can be applied at any point in the supply chain as a drop-in solution. The technology allows materials and products to be:

- marked and recorded using blockchain technology to enable accurate identification;
- protected from product diversion, counterfeiting and fraud;
- fully traced to origin and through their supply chain history;



- compliant with ESG regulations, international customs and industry quality regulations (including food regulations); and
- authenticated in real-time.

SMX is currently undertaking, inter alia, the following industry projects:

- Commercialisation of the technology in the alcoholic beverages industry.
- Through Yahaloma Technologies Inc, a joint venture with Canadian company, Trifecta Industries Inc, SMX is working on the commercialisation of the technology in the diamonds and precious stones industry.
- Through True Gold Consortium Pty Ltd, of which W.A. Mint Pty Ltd, subsidiary of the Perth Mint is the other main partner, SMX is working to create an industry standard to mark, track and trace gold bars and gold through every stage of the supply chain using blockchain technology.
- Development of the Fashion Sustainability Competence Centre to provide participating fashion brands access to SMX's technology. The aim is to allow participating brands to recycle their own merchandise back into high-quality material and merchandise at a commercial scale.
- Joint operation to develop solutions for plastic traceability and circularity.
- Commercialisation of the technology for ethical sourcing of natural and synthetic rubber.

Further information about SMX and its operations is set out in section 5 of the Scheme Booklet.

6.3 Directors

The current board directors of SMX are set out below:

Name	Role	Appointment
Everardus Hofland	Executive Chairman	24 July 2018
Jovanka Naumoska	Non-Executive Director	24 July 2018
Amir Bader	Non-Executive Director	24 July 2018
Kathryn Fay Davies	Non-Executive Director	9 June 2020
Haggai Alon	CEO and Executive Director	24 July 2018
Mark Andrew Licciardo	Company Secretary	16 May 2018

Source: ASIC records and 30 June 2022 financial statements

Following implementation of the Schemes, SMX has the right to appoint four directors.

6.4 Financial Information

SMX's auditor's reports for the years ended 31 December 2019, 2020 and 2021 were unmodified. The financial statements for 31 December 2019 included an emphasis of matter in relation to the COVID-19 pandemic and that at that time the full impact was not known as to how it would affect the economy but that the Company expected to be able to continue operations.

SMX's auditor's review opinion on the half-year to 30 June 2022 was unmodified.

SMX's functional currency is USD and the financial information is presented below in USD consistent with the presentation in the audited financial statements.



6.4.1 Trading results

Set out below are the audited consolidated profit and loss accounts of SMX for the years ended 31 December 2019, 2020 and 2021 and reviewed for the half-years ended 30 June 2021 and 2022:

US\$000		FY19A	FY20A	FY21A	HY21A	HY22A
Revenue	1	13	13	-	-	-
Cost of Goods Sold	1	(8)	(10)	-	-	-
Gross Profit		5	3	-	-	-
Research and development expenses	2	(2,083)	(1,689)	(2,039)	(885)	(932)
Selling and marketing expenses	3	(178)	(428)	(453)	(197)	(378)
General and administration expenses	4	(2,263)	(3,894)	(2,482)	(1,338)	(1,201)
Operating loss		(4,519)	(6,008)	(4,974)	(2,420)	(2,511)
Finance expense	5	(63)	(79)	(101)	(5)	(36)
Finance income	6	14	66	238	46	105
Gain on sale of IP	7	36	-	-	-	-
Share of joint venture profit/(loss)	8	-	-	(102)	-	-
Net loss before tax		(4,532)	(6,021)	(4,939)	(2,379)	(2,442)
Tax expense		-	-	-	-	-
Net loss after tax		(4,532)	(6,021)	(4,939)	(2,379)	(2,442)

Source: SMX 31 December 2019, 2020 and 2021 audited financial statements and 30 June 2022 reviewed half-year financial statements

Notes:

1. Minimal revenue in FY19 and FY20 related to plastic and counterfeit solutions developed with an Israeli partner with associated chemical marker costs recognised as cost of sales.
2. Research and development expenditure is net of contributions received from industry partners for paid pilots and proof of concept projects (FY19: US\$208,000, FY20: US\$549,000 and FY21: \$1,091,000).
3. Selling and marketing expenditure relates to digital advertising, business development consultants and related travel.
4. General and administration expenditure primarily relates to salaries and wages, share based payments and professional fees.
5. Finance expense relates to bank fees, loan interest and interest on right of use assets as well as foreign exchange payments and losses.
6. Finance income includes foreign exchange gains and interest income on cash balances.
7. Relates to the transfer of IP patent to Yahaloma joint venture partner.
8. The share of joint venture loss relates to SMX's share of losses in each of the joint operations set out in section 6.1, being those entities that are not fully owned.



6.4.2 Balance sheets

Set out below is the audited consolidated balance sheets of SMX as at 31 December 2019, 2020 and 2021 and reviewed balance sheet as at 30 June 2022.

US\$000		FY19A	FY20A	FY21A	HY22A
Cash at bank		1,708	4,341	4,171	858
Trade receivables	1	-	6	-	1,039
Other receivables	2	283	439	921	1,416
Total current assets		1,991	4,786	5,092	3,313
Property and equipment	3	471	951	1,192	1,082
Intangible assets	4	1,405	2,101	3,908	4,856
Investment in joint venture	5	214	248	147	117
Total non-current assets		2,090	3,300	5,247	6,055
Total assets		4,081	8,086	10,339	9,368
Trade payables		(192)	(515)	(917)	(1,615)
Lease liability	6	(38)	(53)	(38)	(28)
Other payables	7	(369)	(553)	(673)	(676)
Convertible notes	8	-	-	-	(570)
Borrowings from related parties	9	(405)	(280)	(269)	(165)
Total current liabilities		(1,004)	(1,401)	(1,897)	(3,054)
Lease liability	6	(45)	(485)	(466)	(458)
Provisions		(7)	-	-	-
Other liabilities	7	(104)	(89)	(85)	(106)
Total non-current liabilities		(156)	(574)	(551)	(564)
Total liabilities		(1,160)	(1,975)	(2,448)	(3,618)
Net assets		2,921	6,111	7,891	5,750
Issued capital		14,988	21,881	28,221	28,737
Share based payment reserve	10	2,370	4,300	4,731	3,708
Foreign currency translation reserve	11	(114)	275	223	(416)
Accumulated losses		(14,323)	(20,345)	(25,284)	(26,279)
Total equity		2,921	6,111	7,891	5,750

Source: SMX's 31 December 2019, 2020 and 2021 audited financial statements and reviewed financial statements at 30 June 2022

Notes:

1. Trade receivables at 30 June 2022 relate to amounts receivable from industry partners for pilot projects.
2. Other receivables include amounts receivable from tax authorities in relation to valued added tax receivable and tax advance in relation to employees that will be deductible from future tax payments, proof of concept receivables and prepaid expenses. The increase in prepayments at 30 June 2022 relates to the prepaid transaction costs in relation to the Schemes.
3. Property and equipment primarily relates to machines and equipment and right of use assets for leases.
4. Intangible assets relate to patents, marking and reading technology and software and blockchain assets. Expenditure has been capitalised across all areas over the last three years. The increase at 30 June 2022 also includes exclusive licence intellectual property acquired (US\$664,000) as a result of a 50% acquisition of SMX Beverages Pty Ltd for which consideration was paid through the issue of options.



5. Investments in joint ventures relate to the joint operations set out in section 6.1. These operations are accounted for using the equity method of accounting whereby investments are recorded at cost and movements in the share of net assets are reflected in the carrying value.
6. Lease liabilities relate to the accounting for right of use assets.
7. Other payables primarily relates to amounts payable to employees and related liabilities (HY22: US\$549,000). The balance at HY22 also includes:
 - Liabilities for grants received of US\$20,000 (with a further US\$105,000 recognised as a non-current liability, a total of US\$125,000).
 - US\$24,000 are payable to Kibbutz Ketura for administrative services.
8. Convertibles notes were issued in May 2022 and are discussed further in section 6.5.5.
9. Borrowings from related parties are loans from two shareholders, Kibbutz Ketura ACS and Kibbutz Degania A. The loans are back-to-back loans from a third-party lender, Kamea Fund, which the shareholders on-lent to SMX on the same terms. In respect of the loans:
 - Interest is payable on the loans at 4% per annum.
 - The loans were fully repaid in August 2022
 - Aggregate bonus payments of US\$0.77 million (ILS 2.5 million) are payable upon completion of the Schemes.
10. The share based payments reserve relates to options granted to employees and other service providers. It also includes options issued for the acquisition of 50% of SMX Beverages Pty Ltd, which are included in the Option Scheme. Any options that expire during a period are reclassified to issued capital.
11. Foreign currency translation reserves relate to foreign exchange gains and losses reflected in equity on the translation of group company financial statements to USD for consolidation.
12. At 31 December 2021, SMX had carried forward tax losses of US\$17,837,000, which have not been booked.
13. Between August 2022 and December 2022, the company entered into loan agreements with a number of private investors raising a total of US\$3,760,000 incurring 10% interest per annum.
The loans have various payment terms and attaching warrants to acquire shares in Empatan all of which have an exercise price of US\$11.50. All warrants have a five-year term.

The terms of the loans are summarised below based on repayment terms:

Amount (US\$)	Payment on implementation of the Scheme	Redeemable warrants	Other warrants	Warrant redemption rights
1,710,000	50% repayable on first anniversary and 50% on the second anniversary	342,000	85,500	The investor has the right to redeem 50% of the warrants within 3 months of the implementation of the Schemes for US\$5 each and a further 25% on the 3rd and 4th anniversary
1,100,000	50% repayable on implementation of the Schemes, remainder earlier of 31 July 2023 and six months of implementation of the Schemes	20,000	105,000	The investor has the right to redeem 50% of the warrants on the 1st and 2nd anniversary of the implementation of the Schemes for US\$5
950,000	100% repayable on implementation of the Schemes	190,000	47,500	The investor has the right to redeem 50% of the warrants on the 1st and 2nd anniversary of the implementation of the Schemes for US\$5
3,760,000		552,000	238,000	



6.5 Capital Structure

SMX's issued capital as at 18 January 2023 comprised:

- 167,854,581 fully paid ordinary shares
- 32,122,957 options subject to the Option Scheme
- 13,914,114 employee, founder and service provider options
- 828,240 convertible notes

6.5.1 Ordinary shares

The top 10 shareholders, as at 14 January 2023, hold 54.0% of the issued capital of SMX and are set out below:

Shareholder	Quantity held	% ownership
HSBC Custody Nominees (Australia) Limited - A/C 2	21,531,752	12.8%
Ibi Trust Management <Energy Ketura Coop A/C>	17,804,623	10.6%
Ibi Trust Management <Degania A Business A/C>	10,374,617	6.2%
Citicorp Nominees Pty Limited GPO Box 764G	8,740,134	5.2%
HSBC Custody Nominees (Australia) Limited	6,911,023	4.1%
BNP Paribas Noms Pty Ltd <DRP>	6,614,710	3.9%
J P Morgan Nominees Australia Pty Limited	5,986,168	3.6%
Ibi Trust Management <Benguy Escrow Co Ltd A/C>	5,135,949	3.1%
Ibi Trust Management <Menachem Eliyahu Haram A/C>	3,766,362	2.2%
Ibi Trust Management <Pini Meidan A/C>	3,766,362	2.2%
Top 10 shareholders	90,631,700	54.0%
Other	77,222,881	46.0%
Total shares	167,854,581	100.0%

Source: Share registry at 14 January 2023

The table below summarises shareholders by size of shareholding at 14 January 2023:

Distribution	No. of holders	Shares	% of total
1 - 1,000	36	7,461	0.0%
1,001 - 5,000	263	739,698	0.4%
5,001 - 10,000	146	1,248,199	0.7%
10,001 - 100,000	276	9,920,096	5.9%
100,001 and over	123	155,939,127	92.9%
Total	844	167,854,581	100.0%

Source: Share registry at 14 January 2023



Since 1 January 2021, SMX has issued the following shares:

Issue type	Date	# of shares	Issue price
Directors' remuneration	Jan 21	39,475	-
Exercise of options	Feb 21 to May 21	1,300,000	0.23
Capital raise	May 21	15,270,249	0.27
Directors' remuneration	May 21	83,503	0.28
Exercise of options	Apr 21	174,744	0.16
Exercise of options	Jul 21	300,000	0.22
Capital raise	Oct 21	8,938,666	0.22
Directors' remuneration	Dec 21	134,584	0.22
Directors' remuneration	May-22	322,317	0.23
Standby equity facility	Aug-22	2,000,000	0.17

Source: 31 December 2021 audited financial statements and management information

On 12 August 2022, SMX entered into a standby equity agreement with Evolution Capital Pty Ltd. The key terms of this agreement are:

- Total commitment of A\$2 million that SMX at its discretion can draw down.
- A maximum of 11,764,705 shares at the minimum issue price of A\$0.17.
- Commitment period to 31 October 2022.
- Purchase price per share the greater of 91.5% of a 1 to 10 day VWAP (period is specified by SMX when exercising rights under the agreement) and A\$0.17.

Of the shares available under the facility 2,000,000 were issued in August 2022. This agreement was terminated in October 2022 and no further shares were issued.



6.5.2 Options subject to the Option Scheme

SMX has the following options on issue that are subject to the Option Scheme:

Expiry Date	Exercise price	Number of options	Option Scheme shares
12/03/2023	A\$0.60	4,926,466	3,458,013
25/03/2023	A\$0.60	1,391,255	976,558
29/05/2023	A\$0.60	3,250,000	2,281,258
14/10/2023	A\$0.20	1,698,829	1,526,193
23/11/2023	A\$0.60	3,089,591	2,168,663
27/11/2023	A\$0.60	1,000,000	701,926
27/11/2023	A\$0.60	500,000	350,963
10/12/2023	A\$0.35	1,150,000	894,581
29/12/2023	A\$0.70	1,341,815	897,179
04/01/2024	A\$0.60	500,000	350,963
04/01/2024	A\$0.70	1,000,000	668,631
05/06/2024	A\$0.31	125,000	107,064
09/07/2024	A\$0.60	1,000,000	702,038
31/12/2024	A\$0.50	100,000	77,003
18/01/2025	A\$0.28	300,000	250,481
28/01/2025	A\$0.39	150,000	124,497
01/06/2025	A\$0.20	2,500,000	2,245,737
25/10/2025	A\$0.36	100,000	83,956
25/03/2027	A\$0.40	8,000,001	6,614,307
		32,122,957	24,480,008

Source: Options register and management information at 18 January 2023

Under the Option Scheme, the option holders are not required to provide cash to exercise the options but will instead receive a lower number of shares as set out in the table above.

All options are exercisable at any time prior to expiry.



6.5.3 Employee, founder and service provider options

SMX has the following share options on issue at 18 January 2023:

Expiry Date	Exercise price	Number of shares
01/09/2023	A\$0.20	773,366
01/09/2023	A\$0.20	829,507
01/09/2023	A\$0.20	945,226
01/09/2023	A\$0.20	975,586
14/10/2023	A\$0.20	1,610,365
14/10/2023	A\$0.20	1,974,064
28/01/2024	A\$0.31	600,000
31/12/2024	A\$0.36	25,000
18/01/2025	A\$0.28	300,000
26/03/2025	A\$0.34	125,000
26/03/2025	A\$0.34	125,000
26/03/2025	A\$0.34	150,000
26/03/2025	A\$0.60	100,000
04/01/2026	A\$0.15	864,000
22/03/2026	A\$0.36	250,000
22/03/2026	A\$0.36	250,000
01/06/2026	A\$0.35	200,000
18/07/2026	A\$0.35	150,000
18/07/2026	A\$0.35	600,000
15/08/2026	A\$0.70	167,000
15/08/2026	A\$0.70	500,000
27/09/2026	A\$0.35	100,000
27/09/2026	A\$0.70	50,000
21/01/2027	A\$0.70	100,000
25/03/2027	A\$0.70	100,000
25/03/2027	A\$0.26	500,000
25/06/2027	A\$0.20	200,000
25/06/2027	A\$0.20	250,000
29/06/2027	A\$0.70	500,000
24/07/2027	A\$0.12	200,000
16/08/2027	A\$0.12	150,000
24/08/2027	A\$0.19	250,000
		13,914,114

Source: Options register and management information at 18 January 2023

Under the Schemes, the above options will be cancelled and the optionholders will receive options on similar terms in Empatán. The optionholders have agreed to the cancellation and issue of options in Empatán subject to the implementation of the Schemes.

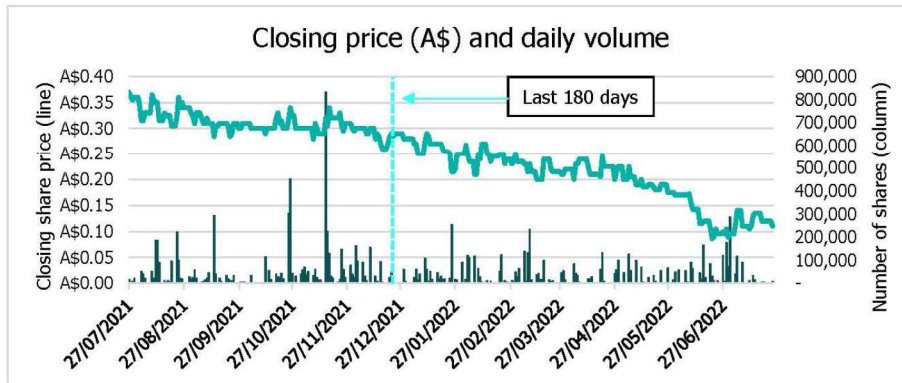
6.5.4 Convertible notes

On 18 May 2022, raised A\$828,240 through the issue of convertible notes at A\$1 per note. Under the Schemes, the convertible note holders will be issued 1,000,000 shares in SMX in settlement of the notes. The noted holders have agreed to the settlement for the issue of shares subject to the implementation of the Schemes.



6.6 Share Price and Volume Trading Analysis

The following chart provides a summary of the trading volumes and prices for SMX’s shares from 26 July 2021 to 25 July 2022, the last full day of trading prior to the announcement of the Schemes:



Source: S&P CapitalIQ

The chart above indicates that the closing share price of SMX has traded within a range of A\$0.086 and A\$0.270 over the 180 days to 25 July 2022 (the last full day of trading before the announcement of the Schemes) with a closing price of A\$0.110.

Prices and volumes of trading in SMX’s share for the last 180 days prior to 25 July 2022 are summarised in the table below.

Period prior to 25 July 2022	Share Price Low	Share Price High	Cumulative volume traded	VWAP
1 Day	A\$ 0.110	A\$ 0.110	6,150	A\$ 0.110
30 Days	A\$ 0.089	A\$ 0.140	974,360	A\$ 0.106
60 Days	A\$ 0.086	A\$ 0.175	1,761,660	A\$ 0.120
90 Days	A\$ 0.086	A\$ 0.225	2,479,910	A\$ 0.145
180 Days	A\$ 0.086	A\$ 0.270	4,713,450	A\$ 0.185

Source: S&P Capital IQ and Nexia analysis

SMX’s shares have a low level of liquidity, with 6.06% of SMX’s ordinary shares being traded in the last 90 days and 5.76% in the last 180 days on an annualised basis.



7. OVERVIEW OF LIONHEART

7.1 Background

Lionheart is a US blank cheque company formed for the purpose of identifying and entering into a merger. Lionheart was incorporated on 14 January 2021 and listed on the NASDAQ Stock Exchange on 3 November 2021.

Apart from identifying and evaluating potential transactions, Lionheart has not undertaken any activities to date.

7.2 Directors

The current board directors of Lionheart are set out below:

Name	Role	Appointment
Ophir Sternberg	Chairman and CEO	14 January 2021
James Stephen Anderson	Independent Director	3 November 2021
Thomas Clyde Byrne	Independent Director	3 November 2021
Thomas W. Hawkins	Independent Director	3 November 2021
Roger Meltzer	Independent Director	3 November 2021

Source: S&P Capital IQ

Following implementation of the Schemes, Lionheart has the right to appoint three directors, two of whom are independent directors.

7.3 Financial Information

Lionheart's auditor's report for the period from 14 January 2021 (date of incorporation) to 31 December 2021 was unqualified. An explanatory paragraph was included in regards to going concern, noting that Lionheart's business plan is dependent on completion of a business combination and that Lionheart has determined that mandatory liquidation and subsequent dissolution should the company not complete a business combination raises substantial doubt about Lionheart's ability to continue as a going concern.

Lionheart's interim financial statements for the nine months to 30 September 2022 are unaudited.

Lionheart prepares its financial statements in accordance with US GAAP.



7.3.1 Trading results

Set out below are the audited profit and loss accounts of Lionheart for the period from 14 January 2021 to 31 December 2021 and the unaudited profit and loss account for the nine months ended 30 September 2022:

	Period from 14 January 2021 to 31 December 2021 (Audited)	Nine months ended 30 September 2022 (Unaudited)
US\$000		
Operating and formation costs	(1)	(3,841)
Interest earned on marketable securities	-	732
Loss before provision for income taxes	(1)	(3,109)
Provision for income taxes	-	(115)
Net loss	(1)	(3,224)

Source: Lionheart's 10K for 31 December 2021 and 10Q at 30 September 2022

As Lionheart has no operations, it has only incurred expenditure. Other income relates to returns on marketable securities held in a trust account in relation to redeemable Class A common stock.



7.3.2 Balance sheet

Set out below is the audited balance sheet of Lionheart at 31 December 2021 and the unaudited balance sheet at 30 September 2022:

US\$000	Notes	31 December 2021 (Audited)	30 September 2022 (Unaudited)
Cash		1,417	490
Prepaid expenses		269	162
Total current assets		1,686	652
Prepaid expenses - long-term		82	-
Marketable securities held in trust account	1	126,252	126,983
Total non-current assets		126,334	126,983
Total assets		128,020	127,635
Accrued expenses	2	(291)	(3,028)
Accrued offering costs		(61)	(47)
Income taxes payable		-	(115)
Total current liabilities		(352)	(3,190)
Deferred underwriting fee payable	3	(4,375)	(4,375)
Total non-current liabilities		(4,375)	(4,375)
Total liabilities		(4,727)	(7,565)
Net assets		123,293	120,070
Class A common stock subject to possible redemption	4	126,250	126,684
Class A common stock	5	-	-
Class B common stock	5	-	-
Accumulated deficit		(2,957)	(6,614)
Total equity		123,293	120,070

Source: Lionheart's 10K for 31 December 2021 and 10Q at 30 September 2022

Notes:

1. Relates to funds held in trust in respect of Class A common stock subject possible redemption.
2. Accrued expenses mainly relate to transaction costs incurred to 30 September 2022.
3. The deferred underwriting fee relates to the underwriters of the IPO and will be become payable to the underwriters from the amounts held in trust only if Lionheart completes a business combination.
4. Under US GAAP, conditionally redeemable stock, including redemption features outside the control of the company, is classified as temporary equity. The amount reflects 12,500,000 shares with a US\$10.10 redemption obligation.
5. Issued for nominal consideration.



7.4 Capital Structure

Lionheart's issued capital at 30 June 2022 comprised:

- 12,500,000 Class A common stock subject to possible redemption
- 3,525,000 Class B common stock
- 6,250,000 public warrants
- 2,200,000 private placement warrants

7.4.1 Class A common stock and Class B common stock

The following shareholders held a voting interest of more than 5% in Lionheart at 7 September 2022:

Shareholder	Quantity held	% ownership
Ophir Sternberg	3,400,000	21.2%
Saba Capital Management LP	1,132,075	7.1%
Significant shareholders	4,532,075	28.3%
Other	11,492,925	71.7%
Total shares	16,025,000	100.0%

Source: Scheme Booklet

Class A common stock and Class B common stock all have the same rights except as follows:

- Class A common stock has the right to redemption of their shares for the amount of funds in the trust account divided by the number of securities with the redemption right. Initially the trust account holds US\$10.10 per redeemable Class A common stock. The redemption right can be exercised on a business combination or after 12 months if a business combination has not occurred or an extension to complete a transaction is not approved.
- Class B common stock has restrictions on transferability. On a business combination the Class B common stock automatically converts to Class A common stock. If the Class A common stock is the same as at the time of listing then this is on a one for one basis. If there has been an increase in Class A Common Stock, then the Class B common stock converts to be 20% of all Class A common stock.

Under the Schemes, Class A and Class B common stockholders will receive one ordinary share in Empatán for each share that they hold.

7.4.2 Public and private placement warrants

The public and private placement warrants have the same terms except that the private warrants have restrictions on transferability.

The key terms of the warrants are:

- exercise price of \$11.50 a share;
- exercisable 30 days after a business combination or 12 months from listing date; and
- expire after 5 years.

Under the Schemes all Lionheart warrants will be converted to public warrants and holders will receive a warrant in Empatán on the same terms as the warrant held.

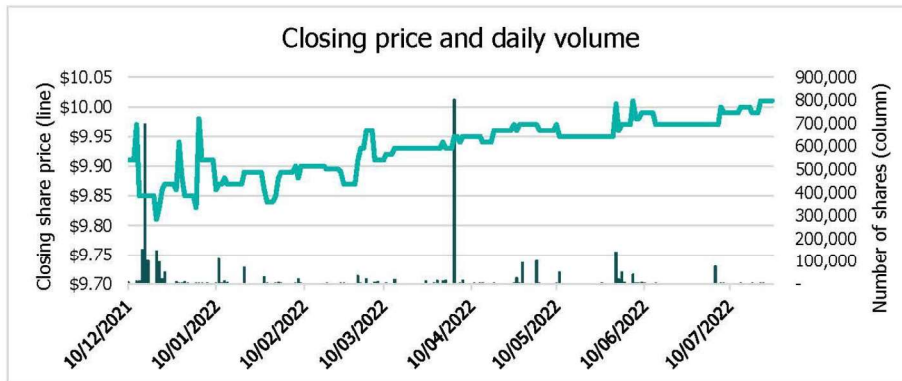


7.4.3 Public offer

Under the public offering for the IPO, shares were issued for US\$10 which comprised one Class A share and half a warrant per share.

7.5 Share Price and Volume Trading Analysis

The following chart provides a summary of the trading volumes and prices for Lionheart shares from 9 December 2021 (the first day of trading) to 25 July 2022, the last full day of trading prior to the announcement of the Schemes:



Source: S&P CapitalIQ

The chart above indicates that the closing share price of Lionheart has traded within a range of US\$9.84 and US\$10.01 over the 180 days to 25 July 2022 (the last full day of trading before the announcement of the Schemes) with a closing price of A\$10.01.

Prices and volumes of trading in Lionheart’s shares for the last 180 days prior to 25 July 2022 are summarised in the table below.

Period prior to 25 July 2022	Share Price Low	Share Price High	Cumulative volume traded	VWAP
1 Day	US\$10.010	US\$10.010	-	\$ -
30 Days	US\$ 9.970	US\$10.010	77,040	US\$ 9.971
60 Days	US\$ 9.950	US\$10.010	342,950	US\$ 9.989
90 Days	US\$ 9.950	US\$10.010	588,660	US\$ 9.979
180 Days	US\$ 9.840	US\$10.010	1,637,780	US\$ 9.956

Lionheart’s shares have a low level of liquidity, with 14.9% (on an annualised basis) of Lionheart’s capital being traded in the last 90 days.



8. VALUATION METHODOLOGIES

8.1 Definition of market value

In forming our opinion as to whether or not the Schemes are fair and reasonable to the SMX Shareholders and SMX Optionholders, we have assessed the value of the issued shares and options of SMX on a fair value basis. RG 111 defines fair value as the amount:

"assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length..."

8.2 Selection of Methodology

RG 111 provides guidance on the valuation methods that an independent expert should consider. These methods include:

- the discounted cash flow method and the estimated realisable value of any surplus assets;
- the application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- the amount that would be available for distribution to security holders on an orderly realisation of assets;
- the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale;
- any recent genuine offers received by the target for the entire business, or any business units or assets as a basis for valuation of those business units or assets; and
- the amount that an alternative bidder might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly applied in valuing such an asset and the availability of appropriate information.

In determining the fair value of SMX, we have applied the quoted price and recent genuine offers methodologies. We have determined these to be the most appropriate methodologies as:

- SMX is yet to generate revenue as it is commercialising its technology;
- Management has not prepared long-term forecasts on the business through to commercial sales that can be used for a discounted cash flow valuation;
- There has been trading in SMX's shares, albeit a low volume; and
- SMX has issued new equity to investors.

In determining the fair value of Lionheart, we have applied the realisation of assets basis. This methodology has been applied as following the high level of redemptions:

- Lionheart's value reflects the cash held and its NASDAQ listing.

In determining the fair value of options held in SMX, we have applied the binomial valuation methodology. We have applied this methodology as options are exercisable at any time up to expiry. The binomial valuation methodology reflects these exercise rights in determining a fair value.



9. ASSESSMENT OF SHARE SCHEME

9.1 Fairness of the Share Scheme

As noted in section 5, in determining the fairness of the Share Scheme we have compared the fair value of a SMX share on a control basis before the implementation of the Schemes to the fair value of a share in Empatani on a minority basis after the implementation of the Schemes.

9.1.1 Fair value of a SMX share before the implementation of the Schemes

We have determined the fair value of a SMX share on a control basis to be as follows:

		Low	Preferred	High
Fair value of SMX share on a minority basis	1	A\$0.15	A\$0.18	A\$0.22
Control premium	2	20%	25%	30%
Fair value of SMX share on a control basis		A\$0.17	A\$0.23	A\$0.29

Notes:

1. The fair value of a share on a minority basis reflects the 90-day VWAP as at 25 July 2022, the last trading day before announcement of the Schemes, at the low end of the valuation range. The high end of the range has been determined based on the issue price for the capital raise in October 2021.
2. A control premium has been applied at 20% to 30% based on long term academic studies which show average control premiums between these ranges. This is also consistent with experience of ASX companies with the average control premium over the last 10 years falling within this range.



9.1.2 Fair value of Empatan after implementation of the Schemes

The fair value of a share in Empatan on a minority basis after the implementation of the Schemes is summarised below.

A\$000		Low	Preferred	High
Fair value of Empatan on a minority basis	1	-	-	-
Fair value of Lionheart on a minority basis	2	-	1,489	2,979
Fair value of SMX on a minority basis	3	24,377	30,653	36,928
Aggregated fair value of Combined Group before implementation of the Schemes		24,377	32,142	39,907
Conversion of convertible notes	4	828	828	828
Less:				
Transaction costs	5	(15,683)	(15,683)	(15,683)
Bonus payment on settlement of related party loans	6	(1,084)	(1,084)	(1,084)
Repayment of bridging loans on completion of the Schemes	7	(2,185)	(2,185)	(2,185)
Fair value of warrants under loan facility	7	(3,808)	(3,813)	(3,824)
Fair value after implementation of the Schemes		2,445	10,204	17,959
Number of shares				
Merger with Lionheart shareholders		16,025,000	16,025,000	16,025,000
Redemption of Lionheart Class A shares		(12,442,441)	(12,442,441)	(12,442,441)
Shares issued under the Share Scheme	8	16,198,372	16,198,372	16,198,372
Issue of shares to convertible noteholders	8	96,502	96,502	96,502
Issue of shares to option holders under the Option Scheme	8	2,362,380	2,362,380	2,362,380
Number of shares after implementation of Schemes		22,239,813	22,239,813	22,239,813
Fair value of a share in Empatan on a minority basis after implementation of the Schemes		A\$0.11	A\$0.46	A\$0.81

Notes:

- Empatan is a newly formed company for the purposes of implementing the Schemes and therefore has no value prior to the implementation of the Schemes.
- The determination of the fair value of Lionheart is set out at 9.1.3.
- The fair value of SMX on a minority basis has been determined as follows:

A\$000		Low	Preferred	High
Fair value of a share in SMX on a minority basis	(a)	A\$0.15	A\$0.18	A\$0.22
Number of shares on issue	(b)	167,854,581	167,854,581	167,854,581
Fair value of SMX on a minority basis	(c)	24,377	30,653	36,928

(a) The fair value of a share on a minority basis for SMX reflects the fair value of a share as set out in section 9.1.1 before the application of a control premium.

(b) The number of shares on issue in SMX before the implementation of the Schemes as set out in section 6.5.



- (c) The fair value of a share on a minority basis has been presented rounded to two decimal places. As a result, the calculated fair value determined by the multiplication of the presented share price by the number of shares differs due to rounding differences.
4. Under the Schemes, convertible notes in SMX as set out in section 6.5.5 will be converted into shares immediately before the implementation of the Share Scheme, reducing SMX's liabilities and therefore increasing its equity value.
 5. Transaction costs of US\$11 million are expected to be incurred in implementing the Schemes. The estimated transaction costs have been converted at the rate of A\$1:43:US\$1 based on the exchange rate at 17 January 2023.
 6. As set out in section 6.4.2, on implementation of the Schemes a bonus payment of ILS 2.5 million will be paid in settlement of SMX related party loans. This will reduce the cash balance of Empatan and therefore the equity value. The amount has been converted at the rate of A\$0.43:ILS1 based on the exchange rate at 2 September 2022.
 7. As set out in section 6.4.2, SMX entered into loans with private investors raising US\$3,760,000 with 790,000 attaching warrants.

A number of the loans are either partially or fully repayable with interest on implementation of the Schemes. The adjustment reflects the amount payable on implementation of the Schemes and has been converted at the rate of A\$1:43:US\$1 based on the exchange rate at 17 January 2023.

The warrants have a term of five years and an exercise price of US\$11.50. Of the 790,000 warrants, 552,000 warrants allow the investor the right to redeem a warrant for US\$5 each at various periods. For these warrants we have determined the fair value of a warrant granted in Empatan to be the maximum of the fair value of a warrant determined based on the binomial valuation methodology and the redemption amount of US\$5 a warrant. In determining the fair value of a warrants we have assumed:

- fair value of a share in Empatan to be that after the implementation of the Scheme but before the warrants;
- risk free rate of 3.3% based on the Australian Government 5-year debt rate; and
- Volatility of 66% based on SMX's 2-year share price volatility rate.

At the low, preferred and high range the redemption rate of US\$5 a warrant where is applicable is higher than the fair value of a warrant calculated under the binomial valuation methodology. Therefore, the redemption rate for these warrants has been determined to be the fair value of a warrant.



8. Under the terms of the Share Scheme, SMX shareholders immediately prior to implementation of the Schemes, shares to be issued under the Option Scheme and shares that are issuable under employee, founder and service provider options will receive the proportion of their interest in SMX allocated across a total of 20 million Empatan shares.

	Low	Preferred	High
Shareholders prior to implementation of the Schemes	167,854,581	167,854,581	167,854,581
Convertible noteholders	1,000,000	1,000,000	1,000,000
Shares issued under Option Scheme	24,480,008	24,480,008	24,480,008
Shares allocated to employee, founder and service provider optionholders	13,914,114	13,914,114	13,914,114
Number of SMX shares before implementation of Schemes	207,248,703	207,248,703	207,248,703
Shareholders prior to implementation of the Schemes	16,198,372	16,198,372	16,198,372
Convertible noteholders	96,502	96,502	96,502
Shares issued under Option Scheme	2,362,380	2,362,380	2,362,380
Shares allocated to employee, founder and service provider optionholders	1,342,746	1,342,746	1,342,746
Number of shares SMX shareholders hold in Empatan after the implementation of the Schemes	20,000,000	20,000,000	20,000,000
Exchange ratio	10.3624	10.3624	10.3624

9.1.3 Fair value of Lionheart immediately prior to the implementation of the Schemes

The fair value of Lionheart on a minority basis immediately prior to the implementation of the Schemes has been determined as follows:

A\$000		Low	Preferred	High
Net assets of Lionheart immediately prior to implementation of the Schemes	1	(2,417)	(2,417)	(2,417)
Fair value of equity	2	-	-	-
Cost of NASDAQ listing	3	-	1,489	2,979
Fair value of Lionheart immediately prior to implementation of the Schemes		-	1,489	2,979

Notes:

1. The net assets of Lionheart immediately prior to the implementation of the Scheme is determined as follows:

A\$000		
Lionheart net assets at 30 September 2022	(a)	171,856
Increase in funds held in trust	(b)	2,887
Extension payment into trust for February 2023	(c)	590
Amounts payable to founders for funding of extension payments	(d)	(2,362)
Waiver of deferred underwriting fee	(e)	6,262
Redemptions	(f)	(181,650)
Adjusted net assets of Lionheart immediately prior to implementation of the Schemes		(2,417)



- (a) As set out in section 7.3.2, Lionheart's net assets were US\$120,070,000 at 30 September 2022. The amount converted at the rate of A\$1:43:US\$1 based on the exchange rate at 17 January 2023.
 - (b) As set out in Lionheart's announcement to the market on 30 January 2023, the trust account balance was US\$129 million as compared to a balance of \$127 million at 30 September 2022. The adjustment reflects the increase in the trust account balance and has been converted at the rate of A\$1:43:US\$1 based on the exchange rate at 17 January 2023.
 - (c) Lionheart's founders are required to contribute a payment in February 2023 of US\$412,500 to extend the timetable for the implementation of the Schemes. The extension payment has been converted at the rate of A\$1:43:US\$1 based on the exchange rate at 17 January 2023.
 - (d) The extension payment contributions to Lionheart have been in the form of a loan repayable to Lionheart's founders on a deferred basis when there are sufficient funds available. Extension payments were made in November and December 2022 and January 2023 and a further payment is expected in February 2023. The liability in relation to these payments is not reflected in Lionheart's net assets at 30 September 2022. The amount is converted at the rate of A\$1:43:US\$1 based on the exchange rate at 17 January 2023.
 - (e) Lionheart's underwriter has agreed to waive the deferred underwriting fee.
 - (f) On 30 January 2023, Lionheart announced that shareholders elected to redeem 12,442,441 shares. Based on the trust account balance the estimated redemption price is US\$10.20 representing a total level of redemptions of US\$126,912,898. This has been converted at the rate of A\$1:43:US\$1 based on the exchange rate at 17 January 2023.
2. As Lionheart has been assessed to be in a net liability position immediately before the implementation of the Schemes, the shares in Lionheart are determined to have no value before any adjustments to reflect the value of the NASDAQ listing.
 3. The value of the NASDAQ listing has been determined on a replacement cost basis. In determining the cost of listing on NASDAQ we have considered the listing costs (excluding brokerage costs, which are reflected in the cash balance that is net of these costs that would be incurred) incurred for companies with less than US\$50m in revenue that listed on the NASDAQ in the last three years. These are summarised below:

Listing date	Company name	Costs of Listing (A\$000)
6/03/2020	Ayala Pharmaceuticals, Inc.	2,762
16/03/2020	Keros Therapeutics, Inc.	3,033
2/07/2020	Nurix Therapeutics, Inc.	3,547
21/08/2020	Outset Medical, Inc.	3,777
17/11/2020	4D Molecular Therapeutics, Inc.	3,577
15/01/2021	Angion Biomedica Corp.	3,607
19/01/2021	Longeveron Inc.	756
31/03/2021	Troika Media Group, Inc.	871
11/06/2021	Sera Prognostics, Inc.	2,918
23/06/2021	Sight Sciences, Inc.	3,862
25/06/2021	Rapid Micro Biosystems, Inc.	3,104
27/07/2021	Stronghold Digital Mining, Inc.	4,551
1/10/2021	Arteris, Inc.	2,745
26/10/2021	Chicago Atlantic Real Estate Finance, Inc.	2,593
	Average cost	2,979

Source: S&P Capital IQ

The average cost has been applied to the high end of our determination of fair value. We note that on implementation of the Schemes, the Combined Group will apply to be listed on NASDAQ. If the



application is unsuccessful then there will be no value applicable to the NASDAQ listing. Therefore at the low end of our range we have placed no value on Lionheart's NASDAQ listing.

9.1.4 Conclusion on fairness of Share Scheme

As discussed in section 5, in determining whether the Share Scheme is fair to SMX shareholders, we have compared the fair value of a share on a control basis before the implementation of the Share Scheme to the fair value of the share in Empatán on a minority basis following the implementation of the Share Scheme. This is summarised below:

	Low	Preferred	High
Fair value of a share in SMX on a control basis	A\$0.17	A\$0.23	A\$0.29
Exchange ratio	10.3624	10.3624	10.3624
Fair value of shares in SMX on a control basis for each Empatán share	A\$1.81	A\$2.37	A\$2.96
Fair value of a share in Empatán on a minority basis	A\$0.11	A\$0.46	A\$0.81

The fair value of shares on a minority basis that SMX shareholders will hold in Empatán after the implementation of the Share Scheme is significantly lower than the fair value of a share held in SMX on a control basis applying the exchange ratio.

If the non-binding term sheet as set out in section 2 is formalised into an agreement on terms materially similar to those set out and if Lionheart draws down the full amount of the advance then there will be no impact on the fair value of a share in Empatán on a minority basis after the implementation of the Share as US\$3.5 million in cash will be received and a liability to repay US\$3.5 million will also be entered into. The investor may choose to purchase shares at an 8% discount on implementation of the Share Scheme resulting in a \$0.02 reduction in the fair value of share in Empatán on a minority basis after the implementation of the Share Scheme if the investor exercises this right.

On repayment of all amounts received under the advance, the non-binding term sheet gives Empatán the right to sell shares to the investor following the implementation of the Share Scheme at a small discount to the VWAP at the time of sale, with the number of shares that can be sold based on trading volumes at that time. Therefore, there is no impact on fair value on implementation of the Share Scheme as all share issues under the non-binding term sheet will occur after the implementation of the Share Scheme.

Therefore, **we have concluded that the Share Scheme is not fair.**

9.2 Reasonableness of the Share Scheme

9.2.1 Approach to assessing Reasonableness

In forming our conclusions in this Second Supplementary Report, we have compared the advantages and disadvantages to shareholders if the Share Scheme proceeds.

9.2.2 Advantages of the Share Scheme

We outline below potential advantages of the Share Scheme:



Advantage	Explanation
<p>Access to capital to continue to develop SMX’s technology through to commercialisation.</p>	<p>The Share Scheme is not conditional on the fund raising and the level of funding is currently uncertain.</p> <p>Lionheart has entered into a non-binding term sheet with an investor under which Empatan will have the right to sell shares to the investor. The number of shares that will be able to be sold under this facility, should the investor ultimately agree to enter into an agreement, is highly dependent on the volume of trading in Empatan’s shares and the ability for the investor to sell any shares that it purchases to maintain a holding of no more than 4.99% in Empatan. The proposed terms are for shares to be sold to the investor at a relatively small discount to the VWAP so although the facility is dilutive it is not materially so.</p> <p>In addition, some shareholders who have elected to redeem their shares may reverse their decision increasing the funds available to Empatan.</p> <p>At the date of this report, we are not aware of any shareholders who have elected to reverse their redemption decision.</p> <p>The additional funding will provide greater opportunity for SMX to develop its technology to commercialisation and increase value for SMX shareholders in the future.</p>
<p>Listing on the NASDAQ exchange providing a deeper capital pool for further fundraising.</p>	<p>The NASDAQ market is a larger market than the ASX on which SMX is currently listed. As a result, there are more potential investors that may be approached for future investment in Empatan and therefore more funding available to further develop SMX’s technology.</p> <p>NASDAQ has a reputation for attracting investment in technology companies and exposure to this investor market may also increase funding sources and opportunities.</p>
<p>Potential for future liquidity in shares as a result of being listed on a larger exchange</p>	<p>The exposure to a larger market and investors with a stronger interest in earlier stage technology companies such as SMX may increase demand for shares in Empatan and therefore increase the volume of trading in Empatan’s shares improving the opportunity for SMX shareholders to realise their investment.</p>

9.2.3 Disadvantages of the Share Scheme

We outline following the potential disadvantages of the Share Scheme:

Disadvantage	Explanation
<p>The Share Scheme is not fair and the fair value of a share in Empatan on a minority basis after the implementation of the Share Scheme is significantly lower than the fair value of a share in SMX on a control basis before the implementation of the Share Scheme after applying the exchange ratio.</p>	<p>Our assessment of the fairness of the Share Scheme is set out in section 9.1.</p> <p>At the low end of the range of our assessment, the fair value a share in Empatan that an SMX shareholder will receive represents 6% of the fair value before the implementation of the Share Scheme adjusted for the exchange ratio. This increase to 27% at the higher end of the range.</p> <p>This represents a significant reduction in fair value of equity held for an SMX shareholder.</p>



Disadvantage	Explanation
<p>The level of redemptions at 99.5% does not provide sufficient funds to cover the transaction costs incurred on the implementation of the Schemes and additional funding will be required in the short to medium term to fund transaction costs and the repayment of loans placing financial pressure on Empatan.</p>	<p>Following the redemptions, Lionheart will only retain A\$3.6 million in cash in its trust account. Against this transaction costs are A\$15.6 million, a shortfall of A\$12.1 million. In addition, further payments of A\$5.9 million are crystallised on implementation of the Schemes as set out in notes 6 and 7 of the table presented at 9.1.2, resulting in a total deficit of A\$17.9 million.</p> <p>Of this amount, A\$3.9 million has already been paid and the Directors have advised us that agreement has been reached to defer the payment of a further A\$16.4 million. The Directors have advised us that they are continuing discussions to reduce or defer transaction costs.</p> <p>This still leaves a significant amount to be paid out of existing SMX cash reserves and through future funding arrangements, including under the non-binding term sheet, settlement of amounts owed through the issue of equity and potential redemption reversals noted above.</p> <p>Given that funding will be needed to cover transaction costs and existing debts this may restrict Empatan’s ability to raise funds or to raise funds on terms that are not dilutive to shareholders. In addition, it may impact the volume of trading in Empatan’s shares and therefore, the ability to sell shares to the investor under the non-binding term sheet.</p>
<p>Dilution of ownership through the issue of shares to Lionheart shareholders.</p>	<p>Following the implementation of the Scheme, SMX shareholders’ interest in the underlying operations will reduce.</p> <p>Based on the redemption rate of 99.5%, SMX shareholders will retain an interest of 84% in Empatan.</p>
<p>SMX Shareholders will hold a security in a foreign entity and on a foreign exchange following implementation of the Share Scheme</p>	<p>Following the implementation of the Share Scheme, SMX shareholders will hold shares in an Irish company and shares will be traded on the NASDAQ exchange.</p> <p>There may implications for holding shares in a foreign company for individual shareholders as well as unfamiliarity with local practices, as opposed to those in Australia, governing corporations.</p> <p>SMX shareholders may be unfamiliar with the trading practices on NASDAQ compared to the ASX, which may impact on the decision to own shares in Empatan following the implementation of the Share Scheme.</p>

9.2.4 Other considerations

The tax implications of the Share Scheme for Australian shareholders are set out in Part A of Annexure A of the Scheme Booklet. The general advice notes that Australian SMX shareholders should be able to obtain capital gains tax roll-over relief and therefore, suffer no adverse tax consequence from the implementation of the Share Scheme. Individual SMX shareholders should seek their own independent tax advice.



9.2.5 Alternatives to the transaction

The Directors have advised us that there are currently no alternatives to the Share Scheme, other than the status quo.

9.2.6 Implications of the transaction not proceeding

If the Share Scheme is not approved, SMX is likely to need further funding to support its ongoing operations and development activities. Any subsequent fundraising may be dilutive to shareholders.

SMX has incurred significant transaction costs to date which will not be able to be recovered. If the Schemes do not occur there will be remaining costs which require payment immediately or in the future. However, the level of fees payable will be significantly lower than the exposure to transaction costs if the Share Scheme is implemented as a significant level of expenses that would be incurred by SMX are contingent on the implementation of the Schemes or are borne by Lionheart.

Depending on the circumstances of the Share Scheme not proceeding, SMX may be either required to pay or may receive a break fee of US\$2 million.

9.2.7 Conclusion as to Reasonableness

In accordance with RG 111, a transaction is reasonable if:

- the transaction is fair; or
- despite not being fair, but considering other significant factors, shareholders should obtain an overall benefit if the transaction proceeds.

Taking into account other significant factors, **we have concluded that the Share Scheme is not reasonable.**

9.3 **Opinion on Share Scheme**

Accordingly, in our opinion, **the Share Scheme is not fair and not reasonable and is not in the best interests of the SMX shareholders.**

The ultimate decision on whether to approve the Share Scheme should be based on shareholders' own assessment of their circumstances. We strongly recommend that shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Scheme Booklet, and consider their own specific circumstances before voting in favour of or against the Share Scheme.



10. ASSESSMENT OF OPTION SCHEME

10.1 Fairness of the Option Scheme

As noted in section 5, in determining the fairness of the Option Scheme we have compared the fair value of a relevant SMX option on a control basis before the implementation of the Schemes to the fair value of the shares SMX optionholders will hold in Empatan on a minority basis after the implementation of the Schemes.

The table below shows the fair value of each option subject to the Option Scheme on a control basis and the fair value of shares that each SMX optionholder will hold in Empatan on implementation of the Scheme. Where the fair value after the implementation of the Schemes is shaded in pink, we have determined that the Option Scheme is not fair to those optionholders.

Expiry date	Number of Options	Exercise Price	Fair value on a control basis			Number of SMX Shares	Fair value of Empatan shares on minority basis per share		
			Low	Preferred	High		Low	Preferred	High
12/03/2023	4,926,466	A\$0.60	A\$0.00	A\$0.00	A\$0.01	3,458,013	A\$0.01	A\$0.03	A\$0.05
25/03/2023	1,391,255	A\$0.60	A\$0.00	A\$0.00	A\$0.01	976,558	A\$0.01	A\$0.03	A\$0.05
29/05/2023	3,250,000	A\$0.60	A\$0.00	A\$0.01	A\$0.01	2,281,258	A\$0.01	A\$0.03	A\$0.05
14/10/2023	1,698,829	A\$0.20	A\$0.03	A\$0.06	A\$0.11	1,526,193	A\$0.01	A\$0.04	A\$0.07
23/11/2023	3,089,591	A\$0.60	A\$0.00	A\$0.01	A\$0.01	2,168,663	A\$0.01	A\$0.03	A\$0.05
27/11/2023	500,000	A\$0.60	A\$0.00	A\$0.01	A\$0.01	701,926	A\$0.01	A\$0.06	A\$0.11
27/11/2023	1,000,000	A\$0.60	A\$0.00	A\$0.01	A\$0.01	350,963	A\$0.00	A\$0.02	A\$0.03
10/12/2023	1,150,000	A\$0.35	A\$0.01	A\$0.03	A\$0.05	894,581	A\$0.01	A\$0.03	A\$0.06
29/12/2023	1,341,815	A\$0.70	A\$0.00	A\$0.00	A\$0.01	897,179	A\$0.01	A\$0.03	A\$0.05
4/01/2024	500,000	A\$0.60	A\$0.00	A\$0.01	A\$0.02	350,963	A\$0.01	A\$0.03	A\$0.05
4/01/2024	1,000,000	A\$0.70	A\$0.00	A\$0.00	A\$0.01	668,631	A\$0.01	A\$0.03	A\$0.05
5/06/2024	125,000	A\$0.31	A\$0.03	A\$0.05	A\$0.08	107,064	A\$0.01	A\$0.04	A\$0.07
9/07/2024	1,000,000	A\$0.60	A\$0.01	A\$0.02	A\$0.03	702,038	A\$0.01	A\$0.03	A\$0.05
31/12/2024	100,000	A\$0.50	A\$0.02	A\$0.04	A\$0.06	77,003	A\$0.01	A\$0.03	A\$0.06
18/01/2025	300,000	A\$0.28	A\$0.04	A\$0.07	A\$0.11	250,481	A\$0.01	A\$0.04	A\$0.07
28/01/2025	150,000	A\$0.39	A\$0.03	A\$0.05	A\$0.08	124,497	A\$0.01	A\$0.04	A\$0.06
1/06/2025	2,500,000	A\$0.20	A\$0.06	A\$0.10	A\$0.15	2,245,737	A\$0.01	A\$0.04	A\$0.07
25/10/2025	100,000	A\$0.36	A\$0.04	A\$0.07	A\$0.11	83,956	A\$0.01	A\$0.04	A\$0.07
25/03/2027	8,000,001	A\$0.40	A\$0.06	A\$0.09	A\$0.13	6,614,307	A\$0.01	A\$0.04	A\$0.06
	32,122,957					24,480,008			

10.1.1 Fair value of options on a control basis before implementation of the Option Scheme

In determining the fair value of each option, the expiry date and exercise price are as set out in the table above. Other key assumptions applied in determining the fair value of the options prior to the implementation of the Options Scheme are as follows:

Fair value of an SMX Share

The fair value of a share on a control basis as set out in section 9.1.1 has been applied in determining the fair value of the options. As the underlying share price reflects a control premium and the option derives its value from the underlying security then the fair value of the option is also on a control basis.



Risk-free rate

The risk-free rate applied to each option reflects the following Australian government debt rates:

Debt term	Rate
Australia Government Debt - 2 Year	3.172%
Australia Government Debt - 3 Year	3.192%
Australia Government Debt - 5 Year	3.312%

Source: S&P Capital IQ at 17 January 2023

The relative risk-free rate applied to each option is based on the debt term nearest to the days to expiry for each option and an average if the period to expiry falls between debt-terms.

Volatility

The volatility rate applied reflects volatility in SMX's share price for the following periods to 25 July 2022, the last day of trading prior to announcement of the Schemes:

Volatility period	Rate
3 months	160%
6 months	138%
12 months	62%
24 months	66%

The relative volatility applied to each option is based on the volatility period nearest to the days to expiry for each option and an average if the period to expiry falls between volatility periods.

10.1.2 Fair value of shares held in Empatan following implementation of the Option Scheme

The fair value of shares held in Empatan after the implementation of the Schemes for each option is calculated as the number of SMX shares issued per option, divided by the exchange ratio set out in section 9.1.2 divided by the number of options for each expiry date.

As an example, for the 100,000 options maturing on 31 December 2024 with an exercise price of A\$0.50, the fair value of shares held on a minority basis is calculated as follows:

		Low	Preferred	High
Number of SMX shares received	A	77,003	77,003	77,003
Exchange ratio ⁽¹⁾	B	10.3624	10.3624	10.3624
Number of Empatan shares received	C=A / B	7,431	7,431	7,431
Fair value of an Empatan share after implementation of the Schemes ⁽²⁾	D	A\$0.11	A\$0.46	A\$0.81
Fair value of shares held after implementation of the Schemes	E=C x D	A\$817	A\$3,410	A\$6,000
Number of options held before implementation of the Schemes	F	100,000	100,000	100,000
Fair value of Empatan shares held per option	G=E / F	A\$0.01	A\$0.03	A\$0.06

⁽¹⁾ See section 9.1.2 for calculation of exchange ratio

⁽²⁾ Fair value of a share in Empatan on a minority basis after implementation of the Schemes as set out in section 9.1.2.



10.1.3 Conclusion on fairness of the Option Scheme

The fair value of Empatan shares on a minority basis that a number of optionholders will receive for each option is lower than the fair value of each option subject to the Option Scheme on a control basis prior to the implementation of the Schemes.

As the Option Scheme is not fair to all optionholders, **we have concluded that the Option Scheme is not fair**.

10.2 **Assessment of reasonableness of the Option Scheme**

In considering the reasonableness of the Option Scheme, we note that the advantages and disadvantages as set out for the Share Scheme in section 9.2.2 and 9.2.3 along with the other considerations in 9.2.4, alternatives to the transaction in section 9.2.5 and implications of the transaction not proceeding in 9.2.6, are applicable.

The Option Scheme has the additional advantage for the SMX optionholders in that they receive shares in SMX and ultimately in Empatan without having to pay for the exercise of the options.

In accordance with RG 111, a transaction is reasonable if:

- the transaction is fair; or
- despite not being fair, but considering other significant factors, shareholders should obtain an overall benefit if the transaction proceeds.

Taking into account other significant factors, **we have concluded that the Option Scheme is not reasonable**.

10.3 **Opinion on Option Scheme**

Accordingly, in our opinion, **the Option Scheme is not fair and not reasonable and is not in the best interests of the SMX optionholders**.

The ultimate decision on whether to approve the Option Scheme should be based on optionholders' own assessment of their circumstances. We strongly recommend that optionholders consult their own professional advisers, carefully read all relevant documentation provided, including the Scheme Booklet, and consider their own specific circumstances before voting in favour of or against the Option Scheme.



APPENDIX A – GLOSSARY

Term	Definition
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Combined Group	The group comprising Empatan, SMX and Lionheart following implementation of the Schemes
Company or SMX	Security Matters Limited
Corporations Act	Corporations Act 2001 (Cth)
Empatan or Parent	Empatan PLC
FSG	Financial Services Guide
FY2019	the financial year ended or as at 31 December 2019
FY2020	the financial year ended or as at 31 December 2020
FY2021	the financial year ended or as at 31 December 2021
Group	SMX and its subsidiaries
Lionheart	Lionheart III Inc
Option Scheme	The scheme of arrangement whereby certain SMX option holders, participate in a cashless exercise to acquire SMX shares which then participate in the Share Scheme as set out in Section 1.
NASDAQ	NASDAQ exchange
NSCA	Nexia Sydney Corporate Advisory Pty Ltd (ABN 68 114 696 945)
NSFS	Nexia Sydney Financial Solutions Pty Ltd (AFSL 247300)
Report	Previous Independent Expert's Report dated 7 October 2022
RG 111	ASIC Regulatory Guide 111: Content of expert Reports
RG 112	ASIC Regulatory Guide 112: Independence of Experts
Share Scheme	The scheme of arrangement whereby Empatan acquires 100% of SMX as set out in Section 1
Scheme Booklet	Document sent to shareholders and optionholders on or about 9 January 2023
Schemes	Share Scheme and Option Scheme
Second Supplementary Report	The second supplementary independent expert's report dated 13 February 2023
Second Supplementary Scheme Booklet	Document sent to shareholders and optionholders on or about the date of this report
Supplementary Report	The supplementary independent expert's report dated 22 January 2023
Supplementary Scheme Booklet	Document sent to shareholders and optionholders on or about 23 January 2023
SPAC	Special purpose acquisition company
VWAP	Volume Weighted Average Price of shares



APPENDIX B - SOURCES OF INFORMATION

- Australian Securities and Investments Commission's (ASIC) database
- Audited financial statements of Security Matters Limited for the years ended 31 December 2019, 2020 and 2021
- Reviewed financial statements of Security Matters Limited for the half-year ended 30 June 2022
- Audited financial statements of Lionheart as at 31 December 2021 and unaudited interim financial statements for the nine months ended 30 September 2022
- Scheme Booklet and Draft Second Supplementary Scheme Booklet prepared by SMX
- Shareholder listing for SMX at 14 January 2023
- Optionholder listing for SMX at 18 January 2023
- S&P Capital IQ
- Lionheart announcement to the market in relation to redemptions on 30 January 2023
- Non-binding term sheet with an investor dated 5 February 2023
- Letter from Lionheart dated 6 February 2023



APPENDIX C - STATEMENT OF DECLARATION & QUALIFICATIONS

Confirmation of Independence

Prior to accepting this engagement Nexia Sydney Corporate Advisory Pty Ltd ("NSCA") determined its independence with respect to SMX and Lionheart with reference to ASIC Regulatory Guide 112: Independence of Experts ("RG 112"). NSCA considers that it meets the requirements of RG 112 and that it is independent of SMX and Lionheart.

Also, in accordance with s648(2) of the Corporations Act, we confirm we are not aware of any business relationship or financial interest of a material nature with SMX or Lionheart, its related parties or associates that would compromise our impartiality.

Mr Brent Goldman, authorised representative of NSCA, has prepared this Second Supplementary Report. Neither he nor any related entities of NSCA have any interest in the promotion of the Schemes nor will NSCA receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this Second Supplementary Report. Our fee is not contingent upon the success or failure of the Schemes, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, NSCA does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

NSCA provided a draft copy of this Second Supplementary Report to the Directors and management of SMX for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of NSCA alone. Changes made to this Second Supplementary Report, as a result of the review by the Directors and management of SMX, have not changed the methodology or conclusions reached by NSCA.

Qualifications

NSCA carries on business at Level 16, 1 Market Street, Sydney NSW 2000. NSCA is an authorised corporate representative of Nexia Sydney Financial Solutions Pty Ltd, which holds Australian Financial Services Licence No 247300 authorising it to provide financial product advice on securities to retail clients. NSCA's representatives are therefore qualified to provide this Second Supplementary Report.

Brent Goldman specifically was involved in preparing and reviewing this Second Supplementary Report. Brent Goldman is a Fellow of the Institute of Chartered Accountants in Australia and New Zealand, a Business Valuation Specialist of the Institute of Chartered Accountants in Australia and New Zealand and a Fellow of the Financial Services Institute of Australasia. He has over 20 years of corporate finance experience in both Australia and the UK.

Disclaimers

The preparation of this Second Supplementary Report has been undertaken at the request of the Independent Directors of SMX. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the Second Supplementary Report should be used for any other purpose than to accompany the Scheme Booklet to be sent to SMX shareholders and optionholders. In particular, it is not intended that this Second Supplementary Report should be used for any purpose other than as an expression of NSCA's opinion as to whether or not the Schemes are fair and reasonable and in the best interests of SMX's shareholders and optionholders.

Shareholders and optionholders should read all documents issued by SMX and consider the options in their entirety, prior to proceeding with a decision. NSCA had no involvement in the preparation of these documents, with the exception of our Second Supplementary Report.



This Second Supplementary Report has been prepared specifically for the shareholders and optionholders of SMX. Neither NSCA, nor any member or employee thereof undertakes responsibility to any person, other than a shareholder or optionholder of SMX, in respect of this Second Supplementary Report, including any errors or omissions howsoever caused. This Second Supplementary Report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

APES 225

Our report has been prepared in accordance with APES 225 Valuation Services.



APPENDIX D - VALUATION METHODOLOGIES

In preparing this Second Supplementary Report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- the discounted cash flow method;
- the capitalisation of earnings method;
- asset based methods; and
- analysis of share market trading.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- a forecast of expected future cash flows;
- an appropriate discount rate; and
- an estimate of terminal value.

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

A terminal value reflects the value of cash flows that will arise beyond the explicit forecast period. This is commonly estimated using either a constant growth assumption or a multiple of earnings (as described under capitalisation of future maintainable earnings below). This terminal value is then discounted to current day terms and added to the net present value of the forecast cash flows.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective, sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.



Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- early stage companies or projects;
- limited life assets such as a mine or toll concession;
- companies where significant growth is expected in future cash flows; or
- projects with volatile earnings.

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if reliable forecasts of cash flow are not available and cannot be determined.

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- a level of future maintainable earnings; and
- an appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBIT - in most cases EBIT will be more reliable than EBITDA as it takes account of the capital intensity of the business.

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT value the whole businesses, or its enterprise value irrespective of the gearing structure. NPAT (or P/E) values the equity of a business

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources.

Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX or the NSX. The merger and acquisition method is a method whereby



multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. In Australia this has been called the comparable transaction methodology.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- there are no suitable listed company or transaction benchmarks for comparison;
- the asset has a limited life;
- future earnings or cash flows are expected to be volatile; or
- there are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets.

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- orderly realisation;
- liquidation value;
- net assets on a going concern basis;
- replacement cost; and
- reproduction cost.

The orderly realisation of assets method estimates Fair Market Value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame.

Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business's assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.



Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- an enterprise is loss making and is not expected to become profitable in the foreseeable future;
- assets are employed profitably but earn less than the cost of capital;
- a significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments); or
- it is relatively easy to enter the industry (for example, small machine shops and retail establishments).

Asset based methods are not appropriate if:

- the ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets; or
- a business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets.

Analysis of Share Trading

The most recent share trading history provides evidence of the Fair Market Value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.



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