

ASX RELEASE



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28 February 2019

eSense-Lab Achieves R&D Breakthroughs and Accelerates Commercialisation Strategy in 2018 Financial Year (FY) 2018 preliminary financial results and Appendix 4E

Investment highlights:

- Achieved a major R&D breakthrough consisting of the development of an e-liquid formulation that provides the aroma of various cannabis strains
- Demonstrated robust antioxidant and anti-inflammatory activities for eSense's medical cannabis terpene blends
- Received a cannabis permit from the Israeli Ministry of Health
- Completed an oversubscribed AUD\$3.15 million capital raising
- Sent a new shipment of product being sent to UK-based group E-Quits
- Post FY18 signed a multi-year distribution agreement to supply E-juice to US-based vaping market company VaporSpec

Life sciences company eSense-Lab Ltd (**"eSense" or the "Company"**) (**ASX: ESE**) is pleased to report its preliminary financial results for the year ending 31 December 2018, along with the attached Appendix 4E.

Company mission and listing

eSense was established with the purpose of "reverse engineering" rare or high-value plants and reconstructing the terpene profile of those plants, using alternate natural sources, in a more cost-effective and sustainable way.

Terpenes are naturally occurring compounds which account for the flavour and fragrance of plants. eSense's technology creates a reconstructed terpene profile replicates the flavour, fragrance and other desired characteristics of the targeted plant to a similarity of 99.9%.

eSense's initial focus has been on the cannabis plant, however, future high-value target plants include ginseng, saffron and other medicinal plants and spices.

In early 2017, eSense was the first Israeli Incorporated Company to list on the Australian Securities Exchange following a successful oversubscribed IPO capital raising. Since the publication of the maiden financial results in March 2018, the Company has made significant progress with regards to both its commercialisation activities and research and development.

Significant R&D progress achieved

In June, eSense announced that it had achieved a major R&D achievement consisting of the development of an e-liquid formulation that provides the aroma of various cannabis strains.

Later that month, eSense announced progress with other R&D activity that demonstrated robust antioxidant and anti-inflammatory activities for its medical cannabis terpene blends. Further to this, was also able to show signs of cellular growth arrest, suggesting that terpenes may be able to assist in a range of medical conditions including the fight against cancer.

At the end of June, eSense received a cannabis permit from the Israeli Ministry of Health. This permit allows the Company to perform R&D on cannabis strains available in Israel and to further perfect its terpene formulations.

Capital raising and commercialisation activities

In October, eSense announced the successful completion of a AUD\$3.15 million a capital raising. The capital raising followed growing interest from investors and was oversubscribed. The Company has been putting that capital to good work, implementing a new expanded commercialisation strategy and continuing to build its entry into significant markets and expanded product offerings with our terpenes.

The Company's efforts culminated in a new shipment of product being sent to UK-based group E-Quits at the end of 2018 following a successful trial period.

E-liquids are used for vaporising (or "vaping" as it is more commonly known) and are a safer and healthier alternative to smoking. E-Quits purchased our product to serve this growing vaping market.

Commenting on this the Chairman, Piers Lewis said: "I am pleased to report that E-Quits has made a significant investment in marketing eSense's product with satisfactory results and positive responses from customers. We may explore expanding that partnership with E-Quits and the possibility of additional agreements throughout the UK and Europe."

Detailed below is a general update on various other memorandums of understanding ("MOU's") and agreements previously announced:

- **Allor Vaporizers LLC (Registered in Florida, USA)** - As noted in the Company's ASX release on 7 February 2018, the Company agreed to extend the term of its agreement with Allor until the end of September 2018. To date, Allor has ordered and paid for US\$85,000 worth of products. It was contractually bound to purchase the remaining US\$385,000 worth of products from the Company by September 2018.

As noted in the Company's ASX release dated 15 October 2018, the Company considers that Allor has not met its commitments as per the agreement, and the Company was seeking to renegotiate the terms of the agreement.

The Board of the Company is considering its position and will update the market in due course once it has determined what course of action to pursue in relation to this agreement.

- **Advanced Technology Management Pte Ltd (incorporated in Singapore)** - Under this agreement, ATM agreed to purchase a minimum quantity of between US\$540,000 and US\$600,000 of the Company's products in the first 12 month period of the agreement. As previously advised to the market, ATM notified the Company in January 2018 that it had received all necessary approvals for the marketing, sale and distribution of the Company's products in Singapore.

Earlier this month, the Company was advised by the CEO of ATM that Ministry of Health in Singapore has authorised the import of eSense terpenes into Singapore. The testing process of the 35 terpenes by the Ministry has taken over six months. eSense is hoping to send samples to Singapore in the next few weeks.

The next step is to send samples, which should occur in the next few weeks.

- **IC Access (incorporated in the UAE)** - Under this agreement, the Company agreed to produce terpene profiles and to modify its line of products to suit the unique needs of the UAE market. In addition, the agreement provides for the potential future development of additional joint ventures between the parties for specific applications. The binding agreement was for a period of 3 years, with a commitment by IC Access to purchase Terpene Strains from the Company totalling AUD\$1,100,000 with a minimum commitment in the first year (commencing before 30 September 2018) of A\$366,000.

As noted in the Company's ASX releases dated 15 and 31 October 2018, the Company considers that IC Access has not met its commitments as per the agreement, and the Company was seeking to renegotiate the terms of the agreement.

In late January, the Company received correspondence from IC Access indicating that IC Access had been acquired by another company which means that the agreement is no longer valid. eSense does not accept that a change of control of IC Access gives IC Access the ability to avoid its obligations under the agreement. The Board of the Company is considering its position, including whether to take legal action to enforce its rights against IC Access under the agreement (noting that successfully pursuing a UAE registered company in the courts is likely to be challenging and costly). The Company will provide a further update in due course once the Board has determined what course of action to pursue in relation to this agreement.

- **Young Henry's Brewing Company Pty Ltd** - The Company signed a non-binding MOU with Australian brewer, Young Henry's Brewing Company Pty Ltd, to collaborate on the development of a terpene infused line of beer.

While the MOU has not been terminated, collaboration work under the MOU has not progressed.

- **Healthy Chocolate Florida, LLC (Registered in Florida, USA)** - The Company signed a non-binding MOU with Healthy Chocolate to collaborate on the development of a terpene infused line of chocolates.

While the MOU has not been terminated, collaboration work under the MOU has not progressed since the Company's last update to the market on 7 February 2018.

- **Wild Rogue Extracts, LLC (Registered in Oregon, USA)** - The Company signed a non-binding MOU with Wild Rogue to collaborate on the development of a new line of cannabidiol (CBD) based products.

While the MOU has not been terminated, collaboration work under the MOU has not progressed since the Company's last update to the market on 7 February 2018.

FY 2019 off to a strong start

The momentum eSense gathered at the end of 2018 carried over into 2019 with the signing of a multi-year distribution agreement to supply E-juice to VaporSpec. Under the agreement, VaporSpec will distribute our products throughout North America, purchasing up to 5 million bottles of eSense products by the third year of the partnership.

VaporSpec is a major player in the US vaping market and may also open the door to further opportunities in the region. In addition, eSense is performing testing programs with companies in other markets, including the development of different products that will allow us to enter the food additive and supplements segments.

For the remainder of 2019 and beyond, the Company will continue to build on its strong R&D foundations and accelerate its commercialisation efforts.

Corporate changes

During the 2018 financial year, there were a number of board and corporate changes, including the appointment of Piers Lewis as the new Chairman.

Commenting on this the Chairman, Piers Lewis said: “I would like to thank the Board of Directors, staff, contractors, Shareholders and stakeholders for their support during this exciting time for the Company. We look forward to further updating you on our progress and creating value for you, our shareholders.”

At 31 December 2018, the Company had Cash and cash equivalents on hand of USD 1.983 million. In January 2019, a further AUD 331,000 was received as part of the placement announced in October 2018.

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About eSense-Lab

eSense-Lab Ltd (ASX: ESE) is a life sciences company specialising in the commercialisation of the phytochemical profiling of plants. The Company combines genetics, mRNA, protein expression and phytochemical profiles to generate a comprehensive model of rare or high value plants. eSense-Lab can then use this model to 'reverse engineer' a terpene profile, which is a naturally occurring formulation of different individual terpenes which together account for many of the plant's health and medical benefits, whilst also exactly replicating the flavour, fragrance and other desired characteristics of the targeted plant, at a more sustainable and cheaper cost

To learn more about eSense-Lab, visit www.esense-lab.com

eSENSE-LAB LIMITED

ARBN 616 228 703

**PRELIMINARY FINAL REPORT
FOR YEAR ENDED DECEMBER 31, 2018**

Appendix 4E

Preliminary final report

1. Details of reporting period

Name of entity	eSENSE-LAB LIMITED
ARBN	616 228 703
Reporting Year	31 December 2018
Previous Corresponding Year	31 December 2017

2. Results for announcement to the market

Key information	12 months ended 31 December 2018 US \$'000	12 months ended 31 December 2017 US \$'000	Increase/ (decrease) %*	Amount change \$*
Revenues from ordinary activities	27	84	(68%)	(17)
Profit/(Loss) from ordinary activities after tax attributable to members	(2,164)	(2,112)	2%	52
Net Profit/ (Loss) for the period attributable to members	(2,164)	(2,112)	2%	52
Net tangible asset/(deficiency) per share	\$0.026	\$0.031	(0.16%)	(0.005)

3. Consolidated statement of profit or loss and other comprehensive income

Refer to attached financial statements

4. Consolidated statement of financial position

Refer to attached financial statements

5. Consolidated statement of cash flows

Refer to attached financial statements

6. Consolidated statement of changes in equity

Refer to attached financial statements

7. Dividends/Distributions

No dividends declared in current or prior year.

eSENSE-LAB LTD

ARBN 616 228 703

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

8. Details of dividend reinvestment plans

N/A

9. Details of entities over which control has been gained or lost during the period

N/A

10. Details of associate and joint venture entities

N/A

11. Any other significant information needed by an investor to make an informed assessment of the Company's financial performance and financial position

Refer to 13. Commentary for results for period and Explanatory information and additional Notes following the preliminary report.

12. Foreign entities

The Company is a foreign registered entity, refer to the financial statements.

13. Commentary on results for period and explanatory information

eSense Lab Limited incurred a net loss from operations for the financial year ended 31 December 2018 of US\$2,164,000 (2017: US\$2,112,000 loss). The net cash flow from operating activities for the financial year was a negative US\$442,000 (2017: US\$ 1,874,000). At 31 December 2018, the company had a cash balance of US\$1,983,000 (2017: US\$2,425,000)

14. Audit

This report is based on the preliminary financial statements which are currently in the process of being audited.

In the preliminary financial statements, a portion of the warrants has been presented as part of the Company's equity instead of being disclosed as a derivative liability, until the Company formally completes their evaluation their fair value.



Mr. Piers Lewis
Non-Executive Chairman

28 February 2019

eSENSE-LAB LTD

ARBN 616 228 703

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018**STATEMENTS OF FINANCIAL POSITION**

		31 December, 2018	31 December, 2017
	Note	US \$ In thousands	
CURRENT ASSETS:			
Cash and cash equivalents		1,983	2,425
Other receivables	2	59	212
TOTAL CURRENT ASSETS		2,042	2,637
NON-CURRENT ASSETS:			
Property, plant and equipment		121	152
TOTAL NON-CURRENT ASSETS		121	152
TOTAL ASSETS		2,163	2,789
CURRENT LIABILITIES:			
Derivative liability		-	199
Trade and other payables		185	375
Convertible loan		-	-
TOTAL CURRENT LIABILITIES		185	574
SHAREHOLDERS' EQUITY (DEFICIT):			
Issued capital	3	7,759	5,832
Reserves		2,151	2,151
Accumulated losses		(7,932)	(5,768)
TOTAL EQUITY (DEFICIT)		1,978	2,215
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
		2,163	2,789

eSENSE-LAB LTD

ARBN 616 228 703

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

STATEMENTS OF COMPREHENSIVE LOSS

	Note	31 December 2018	31 December 2017
US \$ In thousands (except loss per share)			
Revenues		27	84
Cost of sale		15	45
Gross profit		12	39
Operating Expenses			
Selling and marketing expenses	4	377	423
Research and development expenses	5	363	294
General and administrative expenses	6	1,395	1,280
Share based payments expenses		-	63
Operating loss		2,123	2,021
Financial income		-	2
Financial expenses		41	93
Total comprehensive loss for the period		2,164	2,112
Loss per share			
Basic loss per share – US \$		(0.026)	(0.035)

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PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**

	Issued Capital	Reserves	Accumulated Losses	Total
	US \$ In thousands			
Balance at December 31, 2016	439	2,151	(3,656)	(1,066)
Changes during the period:				
Conversion of convertible loan to shares	1,538	-	-	1,538
Issuance of shares, net	3,792	-	-	3,792
Share based payments	63	-	-	63
Total comprehensive loss for the period	-	-	(2,112)	(2,112)
Balance at December 31, 2017	5,832	2,151	(5,768)	2,215
Changes during the period:				
Issuance of shares, net	1,927	-	-	1,927
Total comprehensive loss for the period	-	-	(2,164)	(2,164)
Balance at December 31, 2018	7,759	2,151	(7,932)	1,978

eSENSE-LAB LTD

ARBN 616 228 703

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018**STATEMENTS OF CASH FLOWS**

	31 December 2018	31 December 2017
	US \$ In thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	(2,164)	(2,112)
Adjustments to reconcile net loss to net cash Used in operating activities:		
Depreciation	31	8
Decrease (increase) in other receivables	7	70
Increase (decrease) in trade and other payables	(190)	(67)
Changes in fair value of derivative financial liability	(46)	164
Share based payments	-	63
Net cash used in operating activities	(2,362)	(1,874)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(51)
Change in deposit	146	(159)
Net cash provided by (used in) investing activities	146	(210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares upon inception	-	-
Convertible loan	-	21
Repayment of derivative financial liability	(153)	151
Issuance of shares, net	1,927	3,860
Net cash provided by financing activities	1,774	4,032
Increase (decrease) in cash and cash equivalents	(442)	1,948
Cash and cash equivalents at the beginning of the period	2,425	477
Cash and cash equivalents at the end of the period	1,983	2,425

APPENDIX – NON-CASH ACTIVITIES:

Conversion of convertible loan into issued capital	-	1,538
Prepaid issuance costs	-	68
Acquisition of equipment	-	(105)

eSENSE-LAB LIMITED

ARBN 616 228 703

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – BASIS OF PREPARATION

The preliminary final report has been prepared in accordance with ASX listing rule 4.3A and the disclosure requirements of ASX Appendix 4E.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention. The Company has elected to present the statements of comprehensive income using the function of expense method.

NOTE 2 – OTHER RECEIVABLES:

	December 31, 2018	December 31, 2017
VAT authorities	29	35
Restricted deposit	19	165
Others	11	12
Total	59	212

NOTE 3 – ISSUED CAPITAL:

Movements in fully paid ordinary shares

	2018	
	Date	Number
As of December 31, 2016		34,361,310
Conversion of convertible loan to CDI's	February 10, 2017	10,000,000
Issue of CDI's upon IPO	February 10, 2017	17,500,000
Issue CDI's for services rendered	September 29, 2017	300,000
Issue CDI's for placement	November 22, 2017	8,978,000
Balance at end of the period	December 31, 2017	71,139,310
Conversion or Performance Rights to CDI	January 25, 2018	9,537,503**
Issue CDI's for placement	October 22, 2018	19,633,333
Issue CDI's for placement	November 20, 2018	71,333,337
Issue CDI's for placement	December 6, 2018	3,000,001
Balance at end of the period	December 31, 2018	174,643,484**

*** This includes 9,537,503 CDIs. The applicable CDI's will remain on the separate sub-register of unlisted securities until a resolution of an authorized body of the Company to move such securities from the sub-register of unlisted securities. The holders will waive all rights arising from such securities*

eSENSE-LAB LIMITED

ARBN 616 228 703

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018**NOTE 3 – ISSUED CAPITAL:**

Each Share of the Company confers upon the Shareholder:

- a) The right to one vote at a meeting of the Shareholders of the Company or on any Resolution of Shareholders;
- b) The right to an equal share in any dividend paid by the Company; and
- c) The right to an equal share in the distribution of the surplus assets of the Company on its liquidation.

No dividends have been paid or declared by the Company since the beginning of the current reporting period.

In the preliminary financial statements, a portion of the warrants has been presented as part of the Company's equity instead of being disclosed as a derivative liability, until the Company formally completes their evaluation their fair value.

NOTE 4 – SELLING AND MARKETING EXPENSES:

	December 31, 2018	December 31, 2017
Marketing & Consultants	193	271
Payroll and related expenses	170	88
Other expenses	14	64
Total	377	423

NOTE 5 – RESEARCH AND DEVELOPMENT EXPENSES:

	December 31, 2018	December 31, 2017
Payroll and related expenses	240	206
Raw materials	46	19
Consultants	-	17
Other expenses	77	52
Total	363	294

eSENSE-LAB LIMITED

ARBN 616 228 703

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018**NOTE 6 – GENERAL AND ADMINISTRATIVE EXPENSES:**

	December 31, 2018	December 31, 2017
Payroll, Directors and related expenses	397	250
Legal expenses	303	57
Management fee	230	219
Professional fees	136	231
Listing expenses	-	240
Travel expenses	-	63
Other expenses	329	220
Total	1,395	1,280