

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR YEAR ENDED DECEMBER 31, 2018

eSENSE-LAB LIMITED

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ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

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CORPORATE DIRECTORY

Directors

Mr Piers Lewis - Non-executive Chairman
Mr Amit Edri - Non-executive Director
Ms Galit Assaf - External Director
Mr Benjamin Karasik - Non-executive Director

Auditor

BDO Ziv Haft
Amot Bituach House
48 Derech Menachem Begin Road
Tel Aviv 6618001 Israel

Chief Executive Officer

Mr Haim Cohen

Australian Legal Advisor

Steinepreis Paganin,
16 Milligan St,
Perth WA 6000 Australia

Company Secretary

Mr Ian Pamensky

Principal Office

Israel 8 Sapir Street Nes Tziona, Israel
Telephone: +972.50.6610.402
Email: info@esense-lab.com

Israeli Legal Advisor

Goldfarb Seligman & Co
Ampa Tower
98 Yigal Alon Street,
Tel Aviv 6789141 Israel

Registered Office Australia

Level 14
330 Collins Street
Melbourne VIC 3000

Share Registry

Link Market Services Limited
Level 12 QV1 Building
250 St Georges Terrace
Perth WA 6000

ASX Code

ESE

Website

esense-lab.com

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CHAIRMAN'S LETTER

Dear Shareholder,

On behalf of the Board of eSense-Lab Ltd ("eSense" or "the Company"), it is with great pleasure that I present to you our 2018 Annual Report for the year ended December 31, 2018.

As the recently appointed Chairman of eSense, my role is to help steer the Company's commercialisation activities and assist in its overall strategy, leadership and direction. I have over 20 years' corporate experience in finance banking, management, and M&A across the resources, banking and technology sectors in Australia, Asia and Europe, and I am excited to be taking the reins at eSense.

eSense's mission and listing on the ASX

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 that 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 our last AGM in March 2018, we have made significant progress with regards to our commercialisation activities and research and development.

R&D achievements

In June, we announced that we 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, we announced progress with other R&D activity that demonstrated robust antioxidant and anti-inflammatory activities for our medical cannabis terpene blends. Further to this, we were 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, we received a cannabis permit from the Israeli Ministry of Health. This permit allows us to perform R&D on cannabis strains available in Israel and to further perfect our terpene formulations.

Capital raising and agreement with E-Quits

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

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

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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.

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.

Update regarding agreements and MOUs

In addition to the new agreement with E-Quits, eSense has three agreements and three memorandums of understanding (“MOU’s”) active with various parties, as of December 31 2018.

The agreements are with Allor Vaporizers LLC (Registered in Florida, USA), Advanced Technology Management Pte Ltd (incorporated in Singapore) (‘ATM’) and IC Access (incorporated in the UAE). Both Allor and IC Access have failed to meet their commitments in the eyes of eSense, and we are currently deciding on the most appropriate course of action.

The most promising agreement is with ATM, which has agreed to purchase a minimum quantity of between US\$540,000 and US\$600,000 of the Company’s products and has received all the necessary approvals for the marketing, sale and distribution of the Company’s products in Singapore. eSense is currently in the process of sending ATM samples and will update the market accordingly.

The three MOUs are with Young Henry’s Brewing Company Pty Ltd, Healthy Chocolate Florida, LLC (Registered in Florida, USA), and Wild Rogue Extracts, LLC (Registered in Oregon, USA) and contemplate potential collaboration on terpene-infused food, beverages and other products. As is the case with the agreements, we are currently considering the best course of action, and provide updates when they become available.

2019 off to a strong start

The momentum we 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, we are 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.

With a growing customer base and the agreements eSense has entered this year, the Company is confident of generating revenue and delivering value to its shareholders. The Company expects to make further developments using its technology in 2019 and beyond as the medicinal cannabis industry continues to grow.

This month, we agreed to provide an additional shipment of terpenes to E-Quits Group. The order was received for a further two litres under the terms of the Commercial Supply Agreement eSense announced in Q4 2018 and further cements our position as a key developer of products for the e-cigarette liquids, food additives and supplement markets.

E-Quits has received overwhelmingly positive responses from its customers regarding our product, which is aimed at alleviation of anxiety, depression, pain relief (back injuries and arthritis) and most importantly, severe epileptic seizures. The Company expects an increase in shipments of its terpene blends as e-Quits continues to expand its distribution and sales of its products in the UK, opening further growth channels to global markets.

Also, this month, we announced that we have taken important steps towards streamlining our expenditure and increasing our focus on product development and commercialisation activities.

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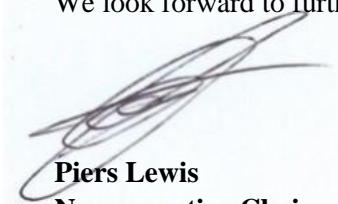
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A reduction in overall expenditure of approximately US\$0.6m per annum compared to the previous year is expected initially, with further reviews being undertaken. The capital will be reallocated towards further cutting-edge R&D innovations and commercialisation opportunities in different jurisdictions and markets. We believe eSense's funds are better spent on commercialising and further developing our products, rather than on administration and corporate overheads.

As eSense's new Chairman, I would like to thank the Board of Directors, staff, contractors, Shareholders and stakeholders for their support during this exciting time for the Company. For the remainder of 2019 and beyond, we will continue to build on our strong R&D foundations and accelerate our commercialisation efforts.

We look forward to further updating you on our progress and creating value for you, our shareholders.

A handwritten signature in dark ink, appearing to read 'Piers Lewis', is written over a light blue rectangular background.

Piers Lewis
Non-executive Chairman

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DIRECTORS REPORT

Your Directors present their report, together with the financial statements of eSense-Lab Limited for the year ended 31 December 2018.

Board of Directors

The names and the particulars of the Directors of the Company during or since the end of the financial year are:

Name	Status	Appointed	Resigned
Mr Piers Lewis	Non-Executive Chairman	Appointed 30 November 2018	-
Mr Amit Edri	Non-Executive Director	Appointed 30 November 2018	-
Mr Kobi Zecharia	Non-Executive Director	Appointed 29 May 2018	Resigned 19 December 2018
Mr Ilan Saad	Non-Executive Chairman	Appointed Director 1 October 2016, appointed Chairman 9 February 2018	Resigned as Chairman and Director 10 May 2018
Mr Haim Cohen	CEO and Executive Director	Appointed 1 October 2016	Director 13 February 2019*
Mr Eran Gilboa	Non-Executive Director	Appointed 19 September 2016	Resigned 10 May 2018
Ms Galit Assaf	External Director [^]	Appointed 5 December 2016	-
Mr Quentin Megson	External Director	Appointed 5 December 2016	Resigned 29 March 2018
Mr Benjamin Karasik	Non-Executive Director	Appointed 9 February 2018	-
Dr Brendan de Kauwe	Non-Executive Director	Appointed 1 October 2016	Chairman 9 February 2018 Director 29 March 2018**

* Mr Haim Cohen was not re-elected as a Director at the Company's AGM on 13 February 2019.

** Dr Brendan de Kauwe was not re-elected as a Director at the Company's AGM on 29 March 2018.

[^] Under Israeli Company Law the Company is required to have two External Directors. The Company is currently reviewing its options and intends to appoint a second External Director as soon as practically possible.

Company Secretary

Mr Ian Pamensky was appointed as the Company Secretary on 9 January 2018. Mr Steven Wood resigned as Company Secretary on 9 January 2018.

Principal Activity

The principal continuing activity of the Company during the year was technology and research development, specialising in the commercialisation of the phytochemical profiling of plants.

Dividends Paid or Recommended

There were no dividends paid or recommended during the financial year ended 31 December 2018 (2017: Nil).

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Operating Results

The net loss after income tax for the year ended 31 December 2018 amounted to US\$2,201,000 (2017: US\$2,112,000 loss).

Review of Operations

The following significant changes in the state of affairs occurred during the financial period:

- The Company appointed a new Company Secretary, Mr. Ian Pamensky to replace Mr. Steven Wood.
- During the year there were a number of Board changes. These changes included the appointment of Mr Benny Karasik, Mr Piers Lewis and Mr Amit Edri and the resignation of Mr Quentin Megson, Dr Brendan de Kauwe, Mr Eran Gilboa, Mr Ilan Saad and Mr Kobi Zecharia.
- Under an Off-take Agreement with Advance Technology Management Private Limited (ATM), the necessary approvals for marketing, sales and distribution with Singapore for the company product has been received. However, due to logistical license issues, this has been delayed till 2019. In February 2019, 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 happen in the next few weeks.

- The Company has increased its integration into the alcoholic beverages market by testing its products with a Netherlands-based alcoholic beverages developed Progressive Brand (PBB) for development of a terpene infused beer product line. This product is still under development and testing.
- The Company reported significant progress in R&D activities, namely studies that show clear antioxidant activity, strengthening the Company's penetration of the medical cannabis markets, an overall strengthening of the Company's IP. Completion of study showing the Company's terpene formulation showing signs of cellular growth arrest.
- In June, eSense announced that the Company had achieved a major R&D achievement consisting of the development of an e-liquid formulation that provides the aroma of various cannabis strains.
- Completion of development of Cannabis aroma e-liquids that are being used in CBD products.
- At the end of June, the Company received a cannabis permit from the Israeli Ministry of Health. This permit allows us to perform R&D on cannabis strains available in Israel and to further perfect our terpene formulations.
- Completion of a 6 month testing period and signing of a commercial supply agreement with e-Quits, as UK based group active in the vaping and CBH market. Under the agreement several liters of the Company's terpenes have been supplied.
- In October, we announced the successful completion of a AUD\$3.15 million a capital raising. The capital raising followed growing interest from investors and was oversubscribed. We have since been putting that capital to good work, implementing a new expanded commercialisation strategy and continuing to build our entry into significant markets and expanded product offerings with our terpenes. A small part of this placement was completed after December 31, 2018.

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Significant Events after the Reporting Date

- On January 25, 2019 the Company has completed raising capital that was announced in October 2018 and issued 11,033,433 ordinary shares and 3,677,778 warrants to investors in the amount of AUD 331,000 (approx. **\$235,000**). In addition, the Company issued 10,000,000 warrants as a broker fee to the lead manager.
- On February 7, 2019 the Company signed 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.
- At the Annual General Meeting held on February 13, 2019, the CEO, Mr Haim Cohen was not re-elected as a Director.
- On March 13, 2019 the Company announced that it had received an additional order for the shipment of its terpenes to a UK based Company.
- On March 13, 2019 the Company issued 400,000 ordinary shares to a former director for nil cash in consideration for consulting services provided to the Company in his role as a director of the Company.
- On March 19, 2019 3,000,000 Class A Performance rights were converted into shares of the Company on 1:1 basis. The milestone of these Performance rights was achieved during March 2017, but the conversion was delayed until the Class A Performance rights were no longer escrowed.
- On March 19, 2019 the Company issued 600,000 ordinary shares to one of its employees of the Company for service provided since the IPO in February 2017.

No matters, or circumstances have arisen since the end of the financial year which significantly affect the operations of the Company, the results of those operations, or the state of the affairs of the Company in future financial years.

Information on Directors

Mr Piers Lewis Chairman (Appointed 30 November 2018)

Qualifications Bachelor of Commerce degree at the University of Western Australia and qualified as a Chartered Accountant from Deloitte in 2001 and is a member of the Chartered Secretaries of Australia.

Experience Mr Lewis has over 20 years' corporate experience in finance, banking, management and M&A in the resources, banking and technology sectors in Australia, Asia and Europe.

In 2011, Mr Lewis founded Smallcap Corporate, a corporate advisory services company providing service to more than a dozen listed and unlisted clients.

Interest in Shares and Options at the date of this report Nil

Directorships held in other listed entities (last 3 years) He currently serves on the board of Digital Wine Ventures Limited (ASX:DW8), Manalto Limited and Cycliq Group Limited (ASX:CYQ).

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Information on Directors

Mr Ami Edri	Non-executive Director (Appointed 30 November 2018)
Qualifications	B.A. in Business Administration, Arison School of Business
Experience	Mr Edri has extensive experience in the medicinal cannabis industry, having served as an Independent consultant for several International medical cannabis companies. Consulting on business development, investment opportunities, and strategy. Amit was the COO of a large-scale medical cannabis processor in Israel. In 2013 he built a medical cannabis Vaporizers company from scratch Amit also had a unique career in the Israeli military, gaining the rank of Major with the Israeli Special Air Force Unit.
Interest in Shares and Options at the date of this report	Nil
Directorships held in other listed entities (last 3 years)	N/A
Mr Kobi Zecharia	Non-executive Director (Appointed 29 May 2018 and Resigned 19 December 2018)
Qualifications	BA in Economics and Business Administration from Ben Gurion University and a MBA in Finance from Bar-Ilan University.
Experience	Mr. Zecharia has been the CEO, Chairman, board member and co-founder, of several Hi-Tech companies. In addition, Mr. Zecharia is an experienced investment banker, having worked for more than 20 years for several of the leading investment banks in Israel, including, Poalim Capital Markets and Investments, Leumi and Co Investment Bank, Israel Discount Capital Markets & Investments. He was also the CEO of Zeler-Eblagon Underwriting & Investment and the CEO of Menorah-Gaon Underwriting & Investment.
Interest in Shares and Options at the date of this report (at date of resignation)	Nil <i>NOTE:</i> <i>On 13 February 2019 the Shareholders approved the issue of 400,000 CDI to Mr Zacharia at the AGM. These CDI were issued on 13 March 2019.</i>
Directorships held in other listed entities (last 3 years)	N/A

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Information on Directors

Mr Ilan Saad Chairman (Resigned 10 May 2018)

Qualifications Bachelor of Economics and Management

Experience Mr Saad has unique experience and knowledge in distribution companies across a variety of industries including IT, semiconductors and automation. Mr Saad is the Chief Executive Officer of Data Tech Advanced Solutions Ltd., an Israel-based leading IT distributor, responsible for the company's impressive sales growth, improved margins and new sales channels positioning the company as an industry leader in the Israeli market.

Interest in Shares and Options at the date of this report (at date of resignation) 1 Ordinary Share
153,760 CDIs
104,901 CDIs*
500,000 Class A Performance Rights
500,000 Class B Performance Rights
104,901 Class D Performance Rights
70,712 Class E Performance Rights*

Directorships held in other listed entities (last 3 years) Trading Sector at Rapac Communication & Infrastructure Limited, CEO & Chairman (Listed on the TASE)

Mr Haim Cohen Chief Executive Officer and Executive Director (Resigned 13 February 2019*)

Qualifications Bachelors in Social Science

Experience Mr Cohen has extensive managerial experience across numerous sectors including real estate, transport communications, human resources and information systems in both private and government enterprises. He has a successful track record in business development and marketing and has been a manager of project budgets of up to US\$4 billion. Mr Cohen represented the Israeli Government as chairman of the youth exchange authority in Israel

Interest in Shares and Options at the date of this report (at date of resignation) 1 Ordinary Share
1,623,627[#] CDIs
766,586 CDIs⁺
-[#] Class A Performance Rights
500,000 Class B Performance Rights
-^{**} Class D Performance Rights
-^{**} Class E Performance Rights

Directorships held in other listed entities (last 3 years) Nil

* Mr Haim Cohen was not re-elected as a Director at the Company's AGM on 13 February 2019.

** The Class C, D and E Performance Rights lapsed on 14 February 2019.

⁺ The applicable CDIs 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

[#] Class A Performance Rights converted to Ordinary Shares on 19 March 2018

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Mr Eran Gilboa	Non-executive Director (resigned 10 May 2018)
Qualifications	Bachelors in Economics and Management, specialising in finance and is a CPA
Experience	Mr Gilboa has vast experience as the Chief Financial Officer for global companies in the fields of hi-tech, real estate, finance and media. As a result of serving as the Chief Financial Officer, Mr Gilboa gained a wide background in capital offerings, working with venture capital firms and various boards of directors. Mr Gilboa also played a crucial role in various mergers and acquisitions of international companies, where he led the intricate financial and tax processes. Mr Gilboa was responsible for private and public companies in his role as Senior Accountant at Ernst & Young.
Interest in Shares and Options at the date of this report (at date of resignation)	1 Ordinary Share 2,847,188 CDIs 1,942,471 CDIs* 500,000 Class A Performance Rights 500,000 Class B Performance Rights 1,942,471 Class D Performance Rights 1,309,395 Class E Performance Rights*
Directorships held in other listed entities (last 3 years)	Nil
Ms Galit Assaf	External Director
Qualifications	M.A. in Public Policy, M.A. and B.A. in each of Economics and Business Administration
Experience	Ms Assaf has extensive experience in managerial and directorship roles within Israeli companies and government. Ms Assaf is currently the VP of global payments operations and infra with Payoneer, an online payment services company. Ms Assaf is also currently a director and member of the audit and finance committee of Zur Shamir Holdings Ltd., an Israel-based company engaged in finance, insurance and real estate. Ms Assaf has also held the position of chief financial officer (as well as acting chief executive officer and deputy chief executive officer) and chair of the finance committee of the NTA – Metropolitan Mass Transit System, a government owned organization with the responsibility of designing, building and financing the Israeli mass transit systems for the Tel Aviv area. Ms Assaf has also held the position of chair of the finance committee for the Port of Hadera and has been on the board of the Jerusalem Development Authority, and a member of the audit committee for KANAT – Insurance Fund for Natural Risks in Agriculture.
Interest in Shares and Options at the date of this report	500,000# CDIs -# Class A Performance Rights 500,000 Class B Performance Rights
Directorships held in other listed entities (last 3 years)	Zur Shamir holdings ltd from 10 April 2014

Class A Performance Rights converted to Ordinary Shares on 19 March 2018

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Mr Quentin Megson	External Director (Resigned 29 March 2018)
Qualifications	Bachelor of Commerce and Chartered Accountant
Experience	Mr Megson has 25 years' experience in the finance and management sector in Australia. His initial role was as a tax advisor for a major accounting firm before moving to a medium tier accounting firm as a partner. Since 2005, Mr Megson has held various roles with ASX-listed company TFS Corporation Ltd (ASX:TFC), which is involved in the establishment of sandalwood plantations and the processing of the wood to the end product. Mr Megson's role with TFS have included chief financial officer, company secretary and general manager of communications and human relations. Mr Megson is currently the general manager of operations and corporate services of TFS.
Interest in Shares and Options at the date of this report (at date of resignation)	Nil CDIs 500,000 Class A Performance Rights 500,000 Class B Performance Rights
Directorships held in other listed entities (last 3 years)	Nil
Mr Benjamin Karasik	Non-Executive Director (Appointed 9 February 2018)
Qualifications	Graduate TECHNY a military school in Haifa in 1964 where studied to become an aircraft electrical system technician. Graduate Community college in Brooklyn NY in the optical division and hearing aids.
Experience	Mr. Karasik is one of the founders of the Company and is currently one of the largest shareholders in the Company. He has over 40 years' experience in business development in many segments and industries across the world and has been a founder of more than 20 start-ups, including J&B Optical Company Inc., Karasik Developers Company Inc. and GK Vector Company Inc. Mr. Karasik was appointed as a member of the Company's Board of Directors on February 8, 2018.
Interest in Shares and Options at the date of this report	6,298,226 CDIs 4,296,915 CDIs ⁺ -** Class D Performance Rights -** Class E Performance Rights
Directorships held in other listed entities (last 3 years)	Nil

** The Class C, D and E Performance Rights lapsed on 14 February 2019.

⁺ The applicable CDIs 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

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Dr Brendan de Kauwe	Non-Executive Director (Resigned as Chairman on 9 February 2018 and as a Director on 29 March 2018**)
Qualifications	Bachelor of Science in Pharmacology and Physiology, Bachelor of Dental Surgery, Post Graduate Diploma in Applied Finance
Experience	<p>Dr de Kauwe is a Director of Otsana Capital, a corporate advisory firm, with vast experience in corporate restructuring and recapitalisations, mergers and acquisitions, IPO/RTO and capital markets. Dr de Kauwe's corporate experience, coupled with his extensive technology, science and bio-medical background gives him an integral understanding in the evaluation and execution of projects and assets over a diverse range of sectors.</p> <p>Dr de Kauwe has held numerous roles within ASX-listed companies, particularly in the Life Sciences and Technology sectors.</p>
Interest in Shares and Options at the date of this report (at date of resignation)	<p>1 Ordinary Share</p> <p>1,453,157 CDIs</p> <p>500,000 Class A Performance Rights</p> <p>500,000 Class B Performance Rights</p> <p>991,407 Class C Performance Rights</p> <p>991,407 Class D Performance Rights</p>
Directorships held in other listed entities (last 3 years)	<p>Actinogen Limited (ACW) from 23 September 2013 to 18 December 2014</p> <p>Xped Limited (XPE) from 22 May 2015 to 23 March 2016</p> <p>Prescient Therapeutics Limited (PTX) from 30 August 2013 to 28 November 2014</p> <p>Race Oncology Limited (RAC) from 1 July 2016 to Current</p> <p>Ookami Limited (OOK) from 5 June 2015 to Current</p>

** Dr Brendan de Kauwe was not re-elected as a Director at the Company's AGM on 29 March 2018.

Information on Company Secretary

Mr Ian Pamensky (Appointed 9 January 2018)

Qualification	Bachelor of Commerce, Bachelor of Accounting Science (Honours) and Chartered Accountant
Experience	Mr Pamensky has over 23 years' experience in the finance and secretarial sector for both SME and ASX-listed entities. Since 1997, Mr Pamensky has held various roles with ASX-listed companies.

Mr Steve Wood (Resigned 9 January 2018)

Qualification	Bachelor of Commerce and Chartered Accountant
	<p>Mr Wood is a Chartered Accountant and an employee of Grange Consulting Group Pty Ltd, which provides a unique range of corporate & financial services to listed and unlisted companies. Mr Wood has extensive experience private and seed capital raisings as well as successful ASX listings, whilst also providing company secretarial and financial management services to both ASX and unlisted public and private companies.</p>

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Meeting of Directors

The number of formal meetings of Directors held during the period and the number of meetings attended by each director was as follows:

DIRECTORS' MEETINGS		
	Number eligible to attend	Number Attended
Piers Lewis	1	1
Amit Edri	1	1
Kobi Zecharia	5	5
Ilan Saad	4	4
Haim Cohen	10	10
Eran Gilboa	4	4
Galit Assaf	10	9
Quentin Megson	4	3
Mr Benjamin Karasik	6	6
Brendan de Kauwe	4	3

State of Incorporation

The Company is incorporated in Israel under the Israeli Companies Law. As a foreign company registered in Australia, the Company is subject to different reporting regime than Australian companies.

Options

At the date of this report, the unissued ordinary shares under option are as follows:

Grant Date	Expiry Date	Exercise Price	Number under option
5 December 2016*	7 February 2020	A\$0.25	5,000,000
7 February 2017*	19 January 2022	NIS0.01	638,689
29 March 2018	29 March 2020	A\$0.40	5,000,000
25 January 2019	25 January 2023	A\$0.06	10,000,000
6 December 2018	20 November 2022	A\$0.06	1,000,000
20 November 2018	20 November 2022	A\$0.06	30,322,225
25 January 2019	20 November 2022	A\$0.06	3,677,778
Total			55,638,692

* Included in the ASX Pre-Quotation Disclosure on 7 February 2017

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

During the years ended 31 December 2018 and 31 December 2017, no options were exercised.

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Performance Rights

At the date of this report the number of performance rights on issue was as follows:

Grant Date	Performance Right	Expiry Date	Number of rights issued
5 December 2016	Class A	14 February 2020*	-
5 December 2016	Class B	14 February 2020	3,000,000
5 December 2016	Class C**	14 February 2019	-
5 December 2016	Class D**	14 February 2019	-
5 December 2016	Class E**	14 February 2019	-
Total			3,000,000

* *Converted to CDI on 19 March 2019.*

** *The Class C, D and E Performance Rights lapsed on 14 February 2019.*

Class	Milestone
Class B Performance Rights	If the volume weighted average market price of Shares calculated over the 20 consecutive trading days on which trades of Shares were recorded on ASX is A\$0.60 or higher.

The Performance Rights will vest and become capable of exercise into ordinary shares in the Company upon the satisfaction of vesting conditions as disclosed above.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Indemnifying Officers

The Company indemnifies each of its Directors, officers and company secretary. The Company indemnifies each director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties, except where the liability arises out of conduct involving lack of good faith, and in defending legal and administrative proceedings and applications for such proceedings.

The Company must use its best endeavours to insure a director or officer against any liability, which does not arise out of conduct constituting a wilful breach of duty or a contravention of the Corporations Act 2001. The Company must also use its best endeavours to insure a Director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

Insurance premiums

During the year the Company paid insurance premiums to insure directors and officers against certain liabilities arising out of their conduct while acting as an officer of the Group. Under the terms and conditions of the insurance contract, the nature of the liabilities insured against and the premium paid cannot be disclosed.

Environmental Regulations

In the normal course of business, there are no environmental regulations or requirements that the Company is subject to.

eSENSE-LAB LIMITED

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ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

Future Developments, Prospects and Business Strategies

The Company's principal continuing activity is a technology development company. The Company's future developments, prospects and business strategies are to continue to operate as a technology development company and expand its portfolio in technology solutions.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, BDO Ziv Haft, as part of the terms of its audit engagement agreement against claims by third parties arising from their report on the financial report.

Non-audit Services

During the year, BDO Ziv Haft the Company's auditor did not provide any services other than their statutory audits.

In the event that non-audit services are provided by BDO Ziv Haft, the Board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise the auditor independence. These procedures include:

- non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Corporations Act 2001

As a foreign company registered in Australia, the Company will not be subject to Chapters 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (e.g. substantial holders and takeovers).

Under the Israeli Companies Law there are restrictions on acquisition of shares, requiring a tender offer for acquisition of public Company shares resulting in holding of 25% or more voting rights of the Company. In addition, under the Companies Law, a person may not purchase shares of a public company if, following the purchase of shares, the purchaser would hold more than 90% of the company's shares, unless the purchaser makes a tender offer to purchase all of the target company's shares. Please refer section 9.1(f) of the Company's Prospectus dated 22 December 2016 for further details. Otherwise, the acquisition of the Company's securities is generally not restricted by the Company's articles of association or the laws of Israel, except that Israeli law prohibits the ownership of securities by nationals of certain countries that are, or have been, in a state of war with Israel.

This report is made in accordance with a resolution of the Directors.



Piers Lewis
Non-executive Chairman
Tel-Aviv, Israel,
March 28, 2019

Independent Auditors' Statements to Shareholders of eSENSE-LAB LIMITED

Opinion

We have audited the accompanying financial report of eSENSE-LAB Ltd (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies.

In our opinion, the accompanying financial report present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Israel, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related going concern

We draw attention to Note 1B in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. Our opinion is not modified respect of this matter.

Key Audits Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

<i>Derivative liabilities</i>	<i>How the matter was addressed in our audits</i>
<p>Derivative liability for the year ended December 31, 2018 amounted to USD 341 thousand.</p> <p>The related disclosure are in Note 4 to the financial statements.</p> <p>During 2018 the Company issued 31,322,225 warrants to different investors- see Note 7.</p> <p>The warrants are classified as a derivative liabilities and are measured at fair value at each reporting date, since the exercise price of the warrants is denominated in AUD and the functional currency of the Company is USD.</p> <p>The fair value of the derivative liability was estimated based on Black & Scholes model which takes into account the terms and conditions upon which the warrants were granted.</p> <p>We have focused on this area due to the significant judgments regarding assumptions utilized in the fair value calculation.</p>	<p>Our procedures in respect of this area included:</p> <ul style="list-style-type: none"> • We reviewed the design of the controls identified by the management surrounding the fair value calculation. • We read relevant documents related to the issuance of the warrants. • We evaluate the calculation of the fair value and the report prepared by an independent valuation expert. • We examined the reasonableness of the assumptions and the methodology which were the basis of the calculation. • We verified the inputs data of the calculations by reference to, where appropriate, external data. • We considered the adequacy of the Company's disclosures in respect of the treatment of the derivative liability in the financial statements, and the disclosure of the accounting policies.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the directors' report for the year ended 31 December 2018 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and directors for the Financial Report

The management and directors of the Company are responsible for the preparation and fair presentation of these financial report in accordance with IFRSs, and for such internal control as management and the directors determines is necessary to enable the preparation of consolidated financial report that are free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Management and the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Financial Report

our objectives are to obtain reasonable assurance about whether the financial report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial report.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Lior Shahar

Partner

Tel-Aviv, Israel

March 28, 2019



Ziv haft
Certified Public Accountants (Isr.)
BDO Member Firm

Tel Aviv	Jerusalem	Haifa	Beer Sheva	Bene Berak	Kiryat Shmona	Petach Tikva	Modiin Illit	Nazareth Illit	Eilat
+972-3-6386868	+972-2-6546200	+972-4-8680600	+972-77-7784100	+972-73-7145300	+972-77-5054906	+972-77-7784180	+972-8-9744111	+972-4-6555888	+972-8-6339911

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eSENSE-LAB LTD

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STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2018	December 31, 2017
\$ In thousands			
CURRENT ASSETS:			
Cash and cash equivalents		1,983	2,425
Restricted cash		19	165
Other receivables		40	47
TOTAL CURRENT ASSETS		2,042	2,637
NON-CURRENT ASSETS:			
Property, plant and equipment, net	3	121	152
TOTAL ASSETS		2,163	2,789
CURRENT LIABILITIES:			
Derivative liability	4	341	199
Trade and other payables		185	375
TOTAL CURRENT LIABILITIES		526	574
SHAREHOLDERS' EQUITY (DEFICIT):			
Issued capital	7	7,455	5,832
Reserves		2,151	2,151
Accumulated losses		(7,969)	(5,768)
TOTAL EQUITY (DEFICIT)		1,637	2,215
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		2,163	2,789

The accompanying notes are an integral part of the financial statements.

March 28, 2019
Date of approval of
the financial
statements

Yacob Cohen
CFO

Haim Cohen
CEO

eSENSE-LAB LTD
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STATEMENTS OF COMPREHENSIVE LOSS

	Note	Year ended December 31, 2018	Year ended December 31, 2017
		<u>\$ In thousands</u>	
Revenues		27	84
Cost of revenues		15	45
Gross profit		12	39
Operating Expenses			
Share based compensation	8	-	63
Research and development expenses	9	363	294
Selling and marketing expenses	10	377	423
General and administrative expenses	11	1,414	1,280
Operating loss		2,142	2,021
Financial income		-	2
Financial expenses		59	93
Financial expenses, net		59	91
Total comprehensive loss		2,201	2,112
Loss per share			
Basic loss per share in \$	12	(0.026)	(0.035)

The accompanying notes are an integral part of the financial statements.

eSENSE-LAB LTD
ARBN 616 228 703

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

	Issued Capital	Reserves	Accumulated Losses	Total
	\$ In thousands			
Balance at January 1, 2017	439	2,151	(3,656)	(1,066)
Changes during the year 2017:				
Conversion of convertible loan to equity	1,538	-	-	1,538
Issuance of shares, net	3,792	-	-	3,792
Share based compensation	63	-	-	63
Total comprehensive loss	-	-	(2,112)	(2,112)
Balance at December 31, 2017	<u>5,832</u>	<u>2,151</u>	<u>(5,768)</u>	<u>2,215</u>
Changes during the year 2018:				
Issuance of shares, net	1,623	-	-	1,623
Total comprehensive loss	-	-	(2,201)	(2,201)
Balance at December 31, 2018	<u><u>7,455</u></u>	<u><u>2,151</u></u>	<u><u>(7,969)</u></u>	<u><u>1,637</u></u>

The accompanying notes are an integral part of the financial statements.

eSENSE-LAB LTD
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STATEMENTS OF CASH FLOWS

	Year ended December 31, 2018	Year ended December 31, 2017
	<u>\$ In thousands</u>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(2,201)	(2,112)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	31	8
Revaluation of restricted cash	-	(1)
Decrease in other receivables	7	71
Decrease in trade and other payables	(190)	(67)
Changes in fair value of convertible loan and derivative liability	(28)	164
Share based compensation	-	63
Net cash used in operating activities	(2,381)	(1,874)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(51)
Change in deposit	146	(159)
Net cash used in investing activities	146	(210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Convertible loan	-	21
Derivative liability	(153)	151
Issue of warrants derivative as part of a package	323	-
Issuance of shares, net	1,623	3,860
Net cash provided by financing activities	1,793	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 A - NON-CASH ACTIVITIES:

Conversion of convertible loan into issued capital	-	1,538
Prepaid issuance costs	-	68
Purchase of property, plant and equipment	-	105

The accompanying notes are an integral part of the financial statements.

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 1 - DESCRIPTION OF BUSINESS:

A. eSENSE-LAB Ltd. (the "Company") (ASX Code: ESE) was incorporated on April 13, 2016 under the Israeli law and started its operations in August 2016. On February 10, 2017 the Company was admitted to the official list on the Australia Securities Exchange ("ASX"), with trading commencing on the February 14, 2017, after the Company raised AUD 3.5 million (\$ 2.67 million) via the issue of 17,500,000 Chess Depositary Interest CDI (hereafter "shares"), financial product which is a unit of beneficial ownership in an underlying financial product which is quoted on the ASX market, at AUD 0.20 per share.

The Company's principal place of business is 8 Sapir Street Nes Tziona, Israel and the Australian registered office is located at L14 330 Collins Street, Melbourne, VIC, 3000, Australia.

The Company is a technology and research and development company specializing in the commercialization of the phytochemical profiling of plants. The Company's technology enables it to "reverse engineer" a comprehensive model of a targeted plant and develop "terpene profiles" for the targeted plant by using alternative raw and naturally occurring materials.

The Company's goal is to achieve whole-plant phytochemical profiles for a vast variety of plants. The Company's initial focus is on the development and manufacturing of terpene profiles of the cannabis plant. The Company elected to focus initially on the development of terpene profiles for the cannabis plant due to the current strength and forecast growth of the industry for cannabis products. Importantly, whilst the Company has replicated the characteristics of cannabis in its profiles, these are not manufactured from cannabis itself and do not contain cannabinoids. Hence, the Company's cannabis profiles are legal in countries or states where cannabis is illegal.

The Company aims to develop and supply reconstructed, strain-specific, phytochemical profiles of targeted plants, with an initial focus on the cannabis industry. Such phytochemical profiles are intended to be supplied as a consistent, standardized, regulated and commercially viable solution for research and end-products for use by consumers.

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 1 - DESCRIPTION OF BUSINESS (CONT.):

B. The Company incurred a negative cash from operation of \$2.3 million, net loss of \$2.2 million for the year ended 2018 and generated \$7.9 million of accumulated deficit since inception. These events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Management plans to overcome these uncertainties include among others material actions that have already begun to reduce ongoing cash burn rate, upcoming future plans to continue and raise funds and also future plan to receive grants from the Israeli chief scientist.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed in the preparation of the financial statements, on a consistent basis, are:

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. 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 except for certain financial liabilities which measured at fair value. The Company has elected to present the statements of comprehensive income using the function of expense method.

Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Foreign currency

The financial statement are prepared in US Dollars (the functional currency), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 21 ("The Effects of Changes in Foreign Exchange Rates").

Accordingly, transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the statements of financial position date;
- Income and expense items – at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange used to convert the related statements of financial position items i.e. at the time of the transaction.
- Exchange gains and losses from the aforementioned conversion are recognized in the statement of comprehensive loss.

Cash equivalents

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

Restricted cash

Restricted cash is considered by the Company to be deposits with banks which are used mainly as a security for guarantees provided against payable payments in advance.

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Issuance costs

The company allocated the incremental costs that were directly attributable to issuing new shares to equity and the costs that were related to the stock market listing or are otherwise not incremental and directly attributable to issuing new shares, were recorded as an expense in the statement of comprehensive loss. Costs that were related to both share issuance and listing were allocated between those functions based on the number of shares. For issuance of warrants classified as a derivative liability and shares classified as an equity instrument the Company recorded the transaction costs through profit and loss and equity proportionately based on amounts at initial recognition.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Classification of financial instruments by fair value hierarchy

Assets and liabilities presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy that is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques that uses inputs that are not based on observable market data).

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Research and development costs:

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The product is technically and commercially feasible.
- The Company intend to complete the product so that it will be available for use or sale.
- The Company has the ability to use the product or sell it.
- The Company has the technical, financial and other resources to complete the development and to use or sell the product.
- The Company can demonstrate the probability that the product will generate future economic benefits.
- The Company is able to measure reliability the expenditure attributable to the product during the development.

During the years 2018 and 2017 the company did not meet the following criteria therefore all the development costs recognized as expenses.

Financial Liabilities

The Company classifies its financial liabilities as follows:

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term liabilities are initially recognized at fair value less any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest method, which ensures that any interest expense over the period is at a constant interest rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs, as well as any interest or coupon payable while the liability is outstanding.

Fair value through profit and loss: certain liabilities are measured at fair value through profit or loss. Transaction costs are recognized in profit or loss.

Provisions

Provisions are recognized when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Impairment of non-financial assets

The carrying values of non-financial assets are tested for impairment whenever events or changes in circumstances indicate that carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffer impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

An impairment loss allocated to asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, is limited to the lower of the carrying amount of the asset that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and the assets recoverable amount. The reversal of impairment loss of an asset is recognized in profit or loss.

Earnings per share

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

Share based compensation

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

Deferred tax

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax with some exceptions.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilized. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/ (assets) are settled/ (recovered).

eSENSE-LAB LIMITED

ARBN 616 228 703

NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost. Cost includes directly attributable costs. Depreciation is computed by the straight-line method, based on the estimated useful lives of the assets, as follows:

	%
Computers and electronic equipment	15-33
Laboratory equipment	20
Furniture and equipment	7

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

New IFRSs in the period prior to their adoption

IFRS 9 Financial Instruments:

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has implemented the requirements of IFRS 9 retrospectively on the basis of the facts and circumstances that existed as of January 1, 2018 by recognizing the cumulative effect of the retrospective application as an adjustment to the opening balance of retained earnings and other components of equity as of January 1, 2018.

The adoption of IFRS 9 did not have an impact on the financial statements.

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

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The Company elected to apply IFRS 15 retrospectively for the first time by recognizing the cumulative effect of the retroactive application as an adjustment to the opening balance of retained earnings as at January 1, 2018. The adoption of IFRS 15 did not have an impact on the financial statements.

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**New IFRSs in the period prior to their adoption (Cont.)****IFRS 16- “Leases”**

Adoption of IFRS 16 will result in the Company recognizing right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Company does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

Instead of recognizing an operating expense for its operating lease payments, the Company will instead recognize interest on its lease liabilities and amortization on its right-of-use assets.

The amendments are effective for reporting periods (interim and annual) beginning after January 1, 2019.

The Company leases term agreement are less than 12 month therefore, IFRS 16 will not have an impact on the financial statements

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET:

	Computers and electronic equipment	Furniture and equipment	Lab equipment	Total
Cost				
As of January 1, 2018	6	11	143	160
Additions	-	*	-	*
As of December 31, 2018	6	11	143	160
Accumulated depreciation				
As of January 1, 2018	2	1	5	8
Additions	2	1	28	31
As of December 31, 2018	4	2	33	39
Net Book Value:				
As of December 31, 2018	2	9	110	121
As of December 31, 2017	4	10	138	152

* Less than \$1 thousands

eSENSE-LAB LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 4 - DERIVATIVE LIABILITY:

Warrants granted to Investor upon raising capital:

- a. On November 21, 2017 the Company has completed a placement raising an aggregate amount of AUD 2,119,500 (\$1,603) by the issue of 8,978,000 shares and 1,250,000 warrants. The issue of the warrants was subject to the company obtaining shareholder approval at a general meeting by 31 March 2018 and if not doing so it will have to pay redemption of 153. The warrants were classified as a derivative financial liability at day one amounted to 151 and are re-measured each reporting date, with changes in fair value recognized in finance expense (income), net, since the exercise price of the warrants is denominated in AUD and the functional currency of the company is USD.

In March 2018, the company removed the liability to issue warrants and paid the investors 153 as redemption since the shareholders' approval wasn't met.

- b. On the last quarter of 2018 the Company has completed a placement raising an aggregate amount of AUD 2,819,000 (Approx. \$2,045) by the issue of 93,966,671 shares and 31,322,225 warrants.

The transaction costs were recorded through equity in the amount of 99 and through profit and loss in the amount of 19. The warrants were classified as a derivative liability at day one amounted to 323 and are re-measured each reporting date, with changes in fair value recognized in finance expense (income), net, since the exercise price of the warrants is denominated in AUD and the functional currency of the company is USD.

- c. Reconciliation of liabilities arising from financial activities:

The changes in the company's liabilities arising from financing activities can be classified as follows:

	Derivative liability
As of January 1, 2018	199
Changes from financing cash flows:	
Derivative liability - paid	(153)
Total changes from financing cash flows	(153)
Derivative liability – upon issue 2018	323
Change in fair value of derivative liability	(28)
As of December 31, 2018	341

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 5 - CONVERTIBLE LOAN:

a. Convertible loan agreement:

In November 2016, the Company signed a Convertible Loan Agreement ("the Agreement") with a number of investors ("the Lenders"), which allowed the Company to borrow up to AUD 1 million. The company borrowed AUD 970,000 (\$727) till end of the year 2016. In the year 2017 the company borrowed AUD 30,000 (\$21). The Company designated upon initial recognition that the convertible loan will be measured at fair value through profit or loss. Upon the initial public offering ("IPO") that took place in February 2017 the loan amounted to 1,538 was converted into 10,000,000 shares.

b. Reconciliation of liabilities arising from financial activities:

The changes in the company's liabilities arising from financing activities can be classified as follows:

	Convertible loan
As of January 1, 2017	<u>1,401</u>
Changes from financing cash flows:	
Receipts of convertible loan	21
Total changes from financing cash flows	<u>21</u>
Change in fair value of convertible loan	116
Conversion of convertible loan issues capital	<u>(1,538)</u>
As of December 31, 2017	<u><u>-</u></u>

NOTE 6 - COMMITMENTS AND CONTINGENCIES:

On 11 February 2018, the Company and several of its directors were named as defendants in a legal motion filed by two members of the board of directors. No financial remedy is requested against the Company. It is not possible to estimate the chances of the court accepting this motion.

As part of the motion the Company was requested by the plaintiffs to cover their legal expenses.

eSENSE-LAB LIMITED**ARBN 616 228 703****NOTES TO THE FINANCIAL STATEMENTS****(US\$ In Thousands)****NOTE 7 - ISSUED CAPITAL:****Movements in fully paid ordinary shares**

	Date	Number
Balance as of 1.1.2017		34,361,310
Conversion of convertible loan	February 10, 2017	10,000,000
Issue of shares upon IPO	February 10, 2017	17,500,000
Issue shares for services rendered	September 29, 2017	300,000
Issue shares for placement	November 21, 2017	8,978,000
	December 31, 2017	71,139,310
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	165,105,981*

** Exclude 9,537,503 shares. The applicable shares 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.*

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.

- A. Upon the initial public offering ("IPO") that took place on February 10, 2017, the Company issued 17,500,000 shares at AUD 0.2 per share (See Note 1).
- B. On February 10, 2017, upon the IPO, the convertible loan was converted into 10,000,000 shares. (See Note 5).
- C. On September 29, 2017 the Company issued 300,000 fully paid ordinary shares to service provider.
- D. On November 21, 2017 the Company has completed a placement raising an aggregate amount of AUD 2,119,500 (\$1,603) by the issue of 8,978,000 shares and 1,250,000 warrants, which have not yet been issued. The warrants were classified as a derivative liability and are re-measured each reporting date, with changes in fair value recognized in finance expense (income), net, since the exercise price of the warrants is in AUD and the functional currency of the company is the USD.

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 7 - ISSUED CAPITAL (CONT.):

- E. On March 29, 2018 the company issued 5,000,000 warrants as a broker fee to the lead manager in relation to the Capital raising in 2017.
- F. On the last quarter of 2018 the Company has completed a placement raising an aggregate amount of AUD 2,819,000 (Approx. \$2,045) by the issue of 93,966,671 shares and 31,322,225 warrants. The transaction costs were recorded through equity in the amount of 99 (see also note 4).

NOTE 8 - SHARE BASED COMPENSATION:

Performance rights:

A. Options granted to directors, shareholders and officers:

In November 2016, the Company granted 472,000 options with no exercise price per share. All warrants were fully vested on grant date. The Company measures and recognizes share based compensation on estimated fair values on the date of grant based on the underlying stock of the date of grant. The value of the Company's ordinary share was obtained based on information embedded in the Company's IPO in January 2017. All warrants were exercised on November 21, 2016 (see Note 7).

B. Warrants granted to service providers:

In December 2016, the Company granted to its service provider fully vested 5,000,000 warrants with AUD 0.25 exercise price per share, the warrants will be expired upon 3 years from issuance.

The fair value of warrants is estimated by using a Monte Carlo simulation, the warrants have an exercise price of AUD 0.25 per share. The Monte Carlo simulation considers the dilution effect embedded by the performance shares. The expected volatility is 50%.

C. Performance rights:

On December 5, 2016, six classes of Performance Rights ("Rights") were approved by shareholders at an Extraordinary General Meeting. The Rights convert to ordinary shares when the attaching milestone is met. Details regarding the Rights at 31 December 2018 were:

- 3,000,000 Class A Performance Right milestone requires the volume weighted average price (VWAP) for 20 consecutive trading days of shares equaling or exceeding 40 cents (AUD), The Rights vest immediately as they are market driven. The milestone was achieved in March 2017, but the Performance Rights were not converted at the time due to the ESCROW restrictions. The Performance Rights were converted to shares in March 2019 once the ESCROW restrictions were lifted. (see also note 16).

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 8 - SHARE BASED COMPENSATION (CONT.):

C. Performance rights (Cont.):

- 3,000,000 Class B Performance Right milestone requires the volume weighted average price (VWAP) for 20 consecutive trading days of shares equaling or exceeding 60 cents (AUD), The Rights vest immediately as they are market driven.
- 5,462,497 Class C Performance Rights require the Company signs binding distribution contracts worth AUD 1.0 million to supply its reconstructed Terpene Profiles within 12 months of admission on the ASX, Holders of Class C Performance Rights will also receive 0.67 Class E Performance right for every Class C Performance Right that vests. During 2018 the Company reached this milestone and On January 29, 2018, the Company announced that 9,537,503 Shares and 6,429,111 Class E Performance Rights were issued upon conversion of 9,537,503 of the original 15,000,000 Class C Performance Rights.
- 15,000,000 Class D Performance Rights Generates cumulative revenue from the application of the Company's intellectual property relating to the analysis and reconstruction of Terpene Profiles of AUD 3.0 million within 24 months from the date of admission on the ASX. Holders of Class D Performance Rights will also receive 0.67 Class F Performance Right for every Class D Performance Right that vests.
- 6,429,111 Class E Performance require the Company signs binding distribution contracts worth AUD 2.0 million to supply its reconstructed Terpene Profiles within 18 months of admission on the ASX. On February 19, 2018, the Company's board of directors resolved that the Class E Performance Rights 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 wave all rights arising from such securities

NOTE 9 – RESEARCH AND DEVELOPMENT EXPENSES:

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

NOTE 10 – SELLING AND MARKETING EXPENSES:

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(US\$ In Thousands)

	Year ended December 31, 2018	Year ended December 31, 2017
Public Relations and promotion marketing	193	271
Payroll and related expenses	170	88
Other expenses	14	64
Total	377	423

NOTE 11 – GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31, 2018	Year ended December 31, 2017
Payroll, directors and related expenses	397	250
Legal expenses	303	57
Management fee	230	219
Professional fees	136	231
Listing expenses	19	240
Travel expenses	-	63
Other expenses	329	220
Total	1,414	1,280

NOTE 12 - BASIC LOSS PER SHARE:

Loss per share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue and loss for the period as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Loss for the year	(2,201)	(2,112)
Weighted average number of ordinary shares	83,155,794	59,877,909
Basic and diluted loss per share (in \$)	(0.026)	(0.035)

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 13 - TAXES ON INCOME:

A. Tax Rate Applicable to Income in Israel:

Israeli corporate tax rates are 24% in 2017 and 23% in 2018.

On December 2016, the Israeli government published the Economic Efficiency Law (2016) (legislative amendments to accomplish budget goals for the years 2017 and 2018) According to which, in 2017 the tax rate will decrease by 1% and starting 2018 by 2%; So that the tax rate will be 24% in 2017 and 23% in 2018 and onwards.

The Company has not yet received final tax assessments since inception.

B. Net operating losses carry forwards:

As of December 31, 2018, the Company has estimated carry forward tax losses of approximately \$3,500 which may be carried forward and offset against taxable income for an indefinite period in the future. Since the Company has carry forward losses and it cannot conclude that it is probable that future taxable profit will be available it did not recognize tax assets, there is no impact of the change in tax rate.

C. Reconciliation between tax expense (income) and accounting loss:

	Year ended December 31, 2018	Year ended December 31, 2017
Loss before taxation	(2,201)	(2,112)
Tax credit at applicable statutory rate 2018: 23% (2017: 24%)	506	507
Non allowable expenses	(18)	(16)
Tax losses for which no DTA is recognized	(488)	(491)
Income tax benefit	-	-

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 14 - RELATED PARTIES AND SHAREHOLDERS:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's making of financial or operational decisions, or if both parties are controlled by the same third party. The Company has transactions with key officers, directors and shareholders.

The following transactions arose with related parties:

Transaction	Account name	Year ended December 31, 2018	Year ended December 31, 2017
Key management personnel	General and administrative expenses	425	584

Liabilities to related parties:

Name	Nature of transaction	Account name	December 31, 2018	December 31, 2017
Key management personnel	Accrued management fee	Accrued expenses	29	27

NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Company is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's financial performance and position. The Company's financial instruments are its cash, trade and other receivables, payables, other payables and loans. The main purpose of these financial instruments is to raise finance for the Company's operation. The company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Company's financial instruments are mainly credit risk and currency risk. The risk rate on loans is fixed. The risk management policies employed by the Company to manage these risks are discussed below.

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Credit risk:

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company closely monitors activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances. The Company's main financial assets are cash and cash equivalents as well as other receivables. Wherever possible and commercially practical the Company holds cash with major financial institutions in Israel.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents	1,983	2,425
Restricted cash	19	165
Other Accounts Receivable	-	12
Total	<u>2,002</u>	<u>2,602</u>

Currency risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the New Israeli Shekel and the AUD. The Company's policy is not to enter into any currency hedging transactions.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Assets	December 31, 2018		
	NIS	AUD	Total
Cash and cash equivalents	19	1,421	1,440
Restricted cash	19	-	19
	<u>38</u>	<u>1,421</u>	<u>1,459</u>

Liabilities			
	NIS	AUD	Total
Trade and other payables	185	-	185
Derivative liability	-	341	341
	<u>185</u>	<u>341</u>	<u>526</u>
Net	<u>(147)</u>	<u>1,080</u>	<u>933</u>

Assets	December 31, 2017		
	NIS	AUD	Total
Cash and cash equivalents	115	2,086	2,201
Restricted cash	11	-	11
Other receivables	20	-	20
	<u>146</u>	<u>2,086</u>	<u>2,232</u>

Liabilities			
	NIS	AUD	Total
Trade and other payables	347	27	374
Derivative liability	-	199	199
	<u>347</u>	<u>226</u>	<u>573</u>
Net	<u>(201)</u>	<u>1,860</u>	<u>1,659</u>

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Sensitivity analysis:

A 10% strengthening of the United States Dollar against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

Linked to NIS	(147)
	10%
	<hr/> (15)
Linked to AUD	1,421
	10%
	<hr/> 142

Liquidity risks:

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability, but can also increase the risk of loss. The Company has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Up to 3 Months	Between 3 and 12 months	Between 1 and 2 year	Between 2 and 5 years	Over 5 years
At December 31, 2018					
Trade payables	185	-	-	-	-
Derivative liability	341	-	-	-	-
Total	<hr/> 526	<hr/> -	<hr/> -	<hr/> -	<hr/> -
	Up to 3 Months	Between 3 and 12 months	Between 1 and 2 year	Between 2 and 5 years	Over 5 years
At December 31, 2017					
Trade and other payables	375	-	-	-	-
Derivative liability	199	-	-	-	-
Total	<hr/> 574	<hr/> -	<hr/> -	<hr/> -	<hr/> -

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Capital risk:

The Company seeks to maintain a capital structure which enables it to continue as a going concern and which supports its business strategy. The Company's capital is provided by various forms of equity raisings. The Company manages its capital structure through raising funds from shareholders and other investors. At the balance sheet date, the Company has net cash and cash equivalents of 1,983. Management does not believe that there are significant capital risks in the near future.

Operational risk:

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and control systems as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously.

Fair value of financial assets and liabilities:

Items carried at fair value as of December 31, 2017 and 2016 are classified in the table below:

Fair value measurements using input type				
December 31, 2018				
	Level 1	Level 2	Level 3	Total
Derivative liability		(341)		
Fair value measurements using input type				
December 31, 2017				
	Level 1	Level 2	Level 3	Total
Derivative liability	-	(199)	-	(199)

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NOTES TO THE FINANCIAL STATEMENTS

(US\$ In Thousands)

NOTE 16 - SUBSEQUENTS EVENTS:

- A.** On January 25, 2019 the Company has completed raising capital that was announced in October 2018 and issued 11,033,433 ordinary shares and 3,677,778 warrants to investors in the amount of AUD 331,000 (approx. \$235). In addition, the Company issued 10,000,000 warrants as a broker fee to the lead manager.
- B.** On March 13, 2019 the Company issued 400,000 ordinary shares to a former director for nil cash in consideration for consulting services provided to the Company in his role as a director of the Company.
- C.** On March 19, 2019 3,000,000 Class A Performance rights were converted into shares of the Company on 1:1 basis. The milestone of these Performance rights was achieved during March 2017, but the conversion was delayed until the Class A Performance rights were no longer escrowed.
- D.** On March 19, 2019 the Company issued 600,000 ordinary shares to one of its employees of the Company for service provided since the IPO in February 2017.

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CORPORATE GOVERNANCE

The Board of eSense-Lab Limited are committed to achieving and demonstrating the highest standards of corporate governance. As such, the Company has adopted what it believes to be appropriate corporate governance policies and practices having regard to its size and the nature of its activities.

The Board has adopted the 3rd Edition of the ASX Corporate Governance Council's *ASX Corporate Governance Principles and Recommendations* which are complemented by the Company's core principles of honesty and integrity. The corporate governance policies and practices adopted by the Board are outlined in the Corporate Governance section of the Company's website (<https://www.esense-lab.com/corporate-governance>).

The Company has also lodged an Appendix 4G contemporaneously with this Annual Report.

eSENSE-LAB LIMITED

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ADDITIONAL ASX INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Financial Report is set out below.

1. Shareholdings

The Company has ordinary shares on issue. The Company's ordinary shares traded on the ASX are traded as Chess Depository Interests ('CDI's) under the code ESE. Each CDI has a beneficial interest in a share.

The issued capital of the Company as at 21 March 2019 is 180,139,414* shares. All issued ordinary fully paid shares carry one vote per share.

** Excludes 9,537,503 shares that are non-voting. Includes 6 Ordinary Shares.*

The Company as at 21 March 19 has issued the following unlisted securities:

- 55,638,692 unlisted options; and
- 3,000,000 performance rights.

2. Distribution of Equity Securities (Shareholders and CDI Holders) at 21 March 2019:

Range	Units	%	Holders
100,001 and Over	156,512,467	86.88	231
10,001 to 100,000	20,776,720	11.53	539
5,001 to 10,000	1,810,137	1.00	216
1,001 to 5,000	1,033,036	0.57	360
1 to 1,000	7,048	0.00	31
Total	180,139,408*	100.00	1,377

The number of investors holding a less than marketable parcel of 25,000 ESE shares (based on a share price of AUD 0.02) was 863.

** Excludes 9,537,503 shares that are non-voting.*

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ADDITIONAL ASX INFORMATION

3. Top 20 Largest Holders of Listed Securities as at 21 March 2019

	Name	Number of Shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,476,918	8.59
2	ROMFAL SIFAT PTY LTD	6,782,365	3.77
3	BENJAMIN KARASIK	6,298,226	3.50
4	DRH SUPERANNUATION PTY LTD	5,000,000	2.78
5	CITICORP NOMINEES PTY LIMITED	4,422,029	2.45
6	MR BILAL AHMAD	4,250,000	2.36
7	EFRAIM MALIK	3,843,988	2.13
8	NITZAN ORGAL	3,622,515	2.01
9	PHEAKES PTY LTD	3,333,333	1.85
9	MEDEK INVESTMENTS PTY LTD	3,333,333	1.85
10	IBI TRUST MANAGEMENT	2,847,187	1.58
11	MR PHILIP JOHN CAWOOD	2,400,000	1.33
12	EUTHENIA TYCHE PTY LTD	2,390,000	1.33
13	MR RON KALFON	2,354,170	1.31
14	DR YARON PENN	2,194,030	1.22
15	BUNDORAN PTY LIMITED	2,161,327	1.20
16	DDPEVCIC (WA) PTY LTD	2,016,666	1.12
17	MR MICHAEL EDWARD WESTAWAY	1,984,531	1.10
18	ATTOLLO INVESTMENTS PTY LTD	1,953,156	1.08
19	PRIMSTON PTY LTD	1,950,000	1.08
20	MR PETER CHRISTOPHER WALL & MRS TANYA-LEE WALL	1,666,667	0.93
	Total top 20	80,280,441	44.57
	Total Remaining Holders Balance	99,858,967	55.43
	Total shares on issue	180,139,408*	100.00
	<i>* Excludes 6 Ordinary Shares</i>		

4. Voting Rights

Ordinary shareholders have the right to one vote at a meeting of Shareholders of the Company or on any Resolutions of Shareholders.

CDI Holders do not hold the right to vote at meetings of the Company and if they wish to take a vote they must direct the CHESS Depository Nominees (CDN) on how to vote in advance of the applicable meeting, provided that both Shareholders and CDI Holders are able to attend meetings.

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ADDITIONAL ASX INFORMATION**5. Unquoted securities as at 21 March 2019**

The names of the security holders holding more than 20% of an unlisted class of security are listed below:

Unlisted Security	Option	Option	Option	Option	Option	Performance Right B
Exercise Price	NIS0.01	A\$0.25	A\$0.40	A\$0.06	A\$0.06	
Expiry	19-Jan-22	7-Feb-20	29-Mar-20	20-Nov-22	25-Jan-23	30-Jan-19
ZVI VOGEL	638,689	-				-
ROMFAL SIFAT PTY LTD			1,350,000			
MISS THISA LACH			1,125,000			
BUZZ CAPITAL PTY LTD			1,125,000			
AUSTRALIAN SHARE NOMINEES PTY LIMITED					1,000,000	
Total number of holders	1	27	4	55	1	6
Holders less than 20%	-	27	2	55	-	6
Total	638,689	5,000,000	5,000,000	35,000,003	10,000,000	3,000,000

6. Substantial shareholders as at 21 March 2019

Name	Number of Shares	% Holding
N/A		

7. Restricted Securities Subject to Escrow

The following securities are subject to escrow as at 21 March 2019:

Name	Number of Securities	Escrow Period Expiry
N/A		

** On February 19, 2018, the Company's Board of Directors resolved to cancel the conversion of the Class C Performance Rights and issue of the Class E Performance Rights. In order to avoid certain logistical constraints and expedite the effectiveness of the Board resolutions, the holders have agreed and irrevocably instructed Link Market Services to move the applicable CDIs and Class E Performance Rights to a separate sub-register of unlisted securities (while waiving all rights arising from such securities) in order to effectuate the Board's decision.*

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ADDITIONAL ASX INFORMATION

8. On-market buy back

There is currently no on-market buyback program for any of eSense-Lab Limited listed securities.

9. Group cash and assets

In accordance with Listing Rule 4.10.19, the Company confirms that it has been using the cash and assets for the period ended 31 December 2018 in a way that is consistent with its business objectives and strategy.