

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR YEAR ENDED DECEMBER 31, 2019

eSENSE-LAB LIMITED

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ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2019

CORPORATE DIRECTORY

Directors

Dr James Ellingford - Non-executive Chairman
Mr Piers Lewis - Non-executive Director
Mr Amit Edri - Non-executive Director
Mr Benjamin Karasik - Non-executive Director
Mr Michael Edwards - Non-executive Director

Chief Executive Officer

Mr Haim Cohen

Company Secretary

Mr Sebastian Andre

Principal Office

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Registered Office Australia

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ASX Code

ESE

Auditor

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

Australian Legal Advisor

Steinepreis Paganin,
16 Milligan St,
Perth WA 6000 Australia

Israeli Legal Advisor

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

Share Registry

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

Website

esense-lab.com

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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 2019.

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 Haim Cohen	CEO and Executive Director	Appointed 1 October 2016	Director 13 February 2019*
Ms Galit Assaf	External Director	Appointed 5 December 2016	8 November 2019
Mr Benjamin Karasik	Non-Executive Director	Appointed 9 February 2018	-
Mr Michael Edwards	Non-Executive Director	Appointed 8 November 2019	-
Dr James Ellingford	Non-Executive Chairman	Appointed 13 January 2020	-

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

Company Secretary

Mr Sebastian Andre was appointed as Company Secretary on 24 April 2019. Mr Ian Pamensky resigned as Company Secretary on 24 April 2019.

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 2019 (2018: Nil).

Operating Results

The net loss after income tax for the year ended 31 December 2019 amounted to US\$1,471,000 (2018: US\$2,201,000 loss).

Review of Operations

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

- During the year there were a number of Board changes. These changes included the appointment of

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Mr Michael Edwards and the resignation of Mr Haim Cohen and Ms Galit Assaf.

- The Company appointed a new Company Secretary, Mr. Sebastian Andre to replace Mr. Ian Pamensky.
- In February 2019, the Company announced the signing of a distribution agreement with VaporSpec Inc., a Californian-based company involved in the distribution of products to the vaping industry. On April 16, 2019, the Company announced that it had received its first order of e-juice product for distribution in the USA and Canada under the distribution agreement with VaporSpec Inc.
- In March and November 2019, the Company announced receiving orders of terpenes under the commercial supply agreement signed with the United Kingdom based E-Quits Group. The commercial supply agreement with E-Quits Group was originally announced on 23 October 2018.
- On March 26, 2019, the Company announced that it had taken steps to streamline expenditure and increase its focus on product development and commercialisation activities.
- On July 31, 2019, the Company announced the expansion of its product line into topical medicinal and cosmetic applications.
- On September 10, 2019, the Company announced the expansion of its R&D program to evaluate the use of terpenes and cannabinoids for treatment of medical conditions targeting diabetes-related wounds, Parkinson's and Alzheimer's disease.

Significant Events after the Reporting Date

On January 29, 2020 the Company's CEO, Mr Haim Cohen, resigned and Mr Piers Lewis would assume the position of interim CEO once Mr Cohen had served out his notice period.

On January 13, 2020 the Company appointed Dr James Ellingford as Non-Executive Chairman of the Company.

Other than the matters noted above, 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

Dr James Ellingford Appointed 13 January 2020

Qualifications Postgraduate in Corporate Management, Master's in Business Administration, Doctorate in Management

Experience Dr James Ellingford has vast international experience in the software industry and has close ties with financial institutions and governments throughout the world. Dr Ellingford has had ample experience over the last several years in the Cannabis space as well as living for a period in West Coast of USA. He is considered an expert in the areas of collaboration of media and digital assets, data sharing and corporate communications to enable workflow acceleration and has close ties with large US based corporates. Dr Ellingford has lectured MBA students in Corporate Governance, ethics and marketing at a leading Sydney University which are areas he has a keen interest in.

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Information on Directors

Interest in Shares and Options at the date of this report

Directorships held in other listed entities (last 3 years) Creso Pharma Ltd (ASX:CPH) (current); MinRex Resources Limited (ASX:MRR) (current); Manalto Limited (ASX:MTL) (resigned January 2019); Victory Mines Limited (ASX:VIC) (resigned January 2019); Burrabulla Corporation Limited (ASX:BUA) (now Pursuit Minerals Limited (ASX:PUR)) (resigned August 2017); Elysium Resources Limited (ASX:EYM) (now Hardey Resources Limited (ASX:HDY)) (resigned March 2017); Zyber Holdings Limited (ASX:ZYB) (resigned February 2016)

Mr Michael Edwards Appointed 8 November 2019

Qualifications Bachelor of Business (Economics and Finance), Bachelor of Science (Geology)

Experience Mr Edwards is a Corporate Advisor and Geologist with more than 20 years' experience in Senior Management in both the private and public sector. Mr Edwards spent three years with Barclays Australia in its Corporate Finance department followed by eight years as an Exploration and Mine Geologist with companies such as Gold Mines of Australia, Eagle Mining and International Mineral Resources. Since 2010, Mr Edwards has been consulting across a range of industries both as a Geologist and Corporate Advisor, predominantly in Australia and Africa. Mr Edwards has been involved in numerous ASX listings, raising seed and IPO capital as well as being intimately involved in several reverse take overs across a range of commodities and industries.

Interest in Shares and Options at the date of this report

Directorships held in other listed entities (last 3 years) Non-Executive Director of DeMem (ASX:DEM); Non-Executive Director of Norwood Systems Limited (ASX:NOR); Non-Executive Director of Firefly Resources Limited (ASX:FFR); Non-Executive Director of Dawine Limited (ASX:DW8) (resigned September 2019)

Mr Piers Lewis Non-Executive Director (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

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Information on Directors

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 Company Limited (ASX:CYQ).

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 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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Information on Company Secretary

Mr Sebastian Andre (Appointed 24 April 2019)

Andre

Qualification Bachelor of Commerce (Accounting) and Chartered Secretary

Mr Andre is a Chartered Secretary with over 10 years of experience in corporate advisory, governance and risk services including 8 years as an adviser at the ASX. Mr Andre has a thorough understanding of the ASX Listing Rules, specialising in providing advice to companies and their boards in respect to capital raisings, IPOs, backdoor listings, corporate compliance and governance matters. Mr Andre holds qualifications in accounting, finance, corporate governance and is a member of the Governance Institute of Australia.

Mr Ian Pamensky (Resigned 24 April 2019)

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.

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	13	13
Amit Edri	13	13
Benjamin Karasik	13	13
Haim Cohen	1	1
Galit Assaf	11	9
Michael Edwards	2	2

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.

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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
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			50,638,692

* 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 2019 and 31 December 2018, no options were exercised.

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 on issue
5 December 2016	Class A	14 February 2020*	-
5 December 2016	Class B	14 February 2020**	-
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			-

* Converted to CDI on 19 March 2019.

** Class B Performance Rights lapsed on 14 February 2020

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

Proceedings on behalf of Company

In September 2019, a legal proceeding was filed against the Company, in which a former consultant claims eligibility for options that were not granted. As part of the preliminary proceedings, the former employee has made a claim for loss due to the non-grant of options. The Company refutes the claim and is defending the legal proceeding. See note 5 of the financial statements for further details.

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At the reporting date, the Company's legal advisers indicated that the probability of the claim cannot be determined with sufficient certainty. Due to inability of legal advisors to assess the plausibility of the claim, the Company did not recognize any provision.

Other than the matter noted above, 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 Company. 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.

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.

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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.

James Ellingford
Non-Executive Chairman
February 27, 2020

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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, 2019, and the related statements of comprehensive loss, changes in shareholders' 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, 2019, and of its financial performance, its changes in shareholders' equity 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.

Tel Aviv	Jerusalem	Haifa	Beer Sheva	Bene Berak	Kiryat Shmona	Petach Tikva	Modiin Illit	Nazareth Illit	Eilat
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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, 2019 amounted to USD 86 thousand.</p> <p>The related disclosure is in Note 4 to the financial report.</p> <p>During 2019 the Company issued 3,677,778 warrants to different investors- see Note 6.</p> <p>The warrants are classified as a derivative liabilities and are measured at fair value through profit and loss 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 read relevant documents related to the issuance of the warrants. • We evaluated 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 report, and the disclosure of the accounting policies.

Other Information

The board of directors are responsible for the other information. The other information comprises the information contained in the directors' report for the year ended 31 December 2019 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 the Board of Directors for the Financial Report

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

In preparing the financial report, management and the board of 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 board of 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 is 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 financial reports.

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 report, 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.

Auditor's Responsibilities for the Audit of the Financial Report (Cont.)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management and the board of directors' usage 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 report, including the disclosures, and whether the financial report represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of 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 board of 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
February 27, 2020

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

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STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2019	December 31, 2018
		US\$ In thousands	
CURRENT ASSETS:			
Cash and cash equivalents		472	1,983
Restricted cash		-	19
Other receivables		28	40
TOTAL CURRENT ASSETS		500	2,042
NON-CURRENT ASSETS:			
Right of use assets		44	-
Property, plant and equipment, net	3	92	121
TOTAL NON-CURRENT		136	121
TOTAL ASSETS		636	2,163
CURRENT LIABILITIES:			
Financial derivative	4	86	341
Lease liabilities		43	-
Trade and other payables		126	185
TOTAL CURRENT LIABILITIES		255	526
SHAREHOLDERS' EQUITY:			
Issued capital	6	7,761	7,455
Reserves		2,060	2,151
Accumulated losses		(9,440)	(7,969)
TOTAL EQUITY		381	1,637
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		636	2,163

February 27, 2020
Date of approval of the
financial statements

Haim Cohen
CEO

Kobi Cohen
CFO

Piers Lewis
Chairman

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

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STATEMENTS OF COMPREHENSIVE LOSS

	Note	Year ended December 31, 2019	Year ended December 31, 2018
		US\$ In thousands	
Revenues		13	27
Cost of revenues		8	15
Gross profit		5	12
Operating Expenses			
Share based compensation		14	-
Research and development expenses	8	314	363
Selling and marketing expenses	9	205	377
General and administrative expenses	10	1,192	1,414
Operating loss		1,720	2,142
Financial income		257	-
Financial expenses		8	59
Financial (income) expenses, net		(249)	59
Total comprehensive loss		1,471	2,201
Loss per share			
Basic loss per share in \$	11	(0.008)	(0.026)

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

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Issued Capital	Reserves	Accumulated Losses	Total
	US\$ In thousands			
Balance at January 1, 2018	5,832	2,151	(5,768)	2,215
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	7,455	2,151	(7,969)	1,637
Changes during the year 2019:				
Issuance of shares, net	186	-	-	186
Issuance of shared based payment	14	15	-	29
Issuance of shares to performance rights holders	106	(106)	-	-
Total comprehensive loss	-	-	(1,471)	(1,471)
Balance at December 31, 2019	7,761	2,060	(9,440)	381

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

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STATEMENTS OF CASH FLOWS

	Year ended December 31, 2019	Year ended December 31, 2018
	US\$ In thousands	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(1,471)	(2,201)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	91	31
Decrease in other receivables	12	7
Decrease in trade and other payables	(59)	(190)
Decrease in fair value of financial derivative	(292)	(28)
Share based compensation	29	-
Net cash used in operating activities	(1,690)	(2,381)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1)	-
Restricted cash	19	146
Net cash provided by investing activities	18	146
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal and interest paid on lease liabilities	(62)	-
redemption of liability to issue warrants	-	(153)
Issue of warrants (financial derivative) as part of a package	37	323
Issuance of shares, net	186	1,623
Net cash provided by financing activities	161	1,793
Decrease in cash and cash equivalents	(1,511)	(442)
Cash and cash equivalents at the beginning of the period	1,983	2,425
Cash and cash equivalents at the end of the period	472	1,983
APPENDIX A - NON-CASH ACTIVITIES:		
Conversion of performance rights to shares	106	-

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

eSENSE-LAB LIMITED

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ADDITIONAL ASX INFORMATION

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.

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.

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ADDITIONAL ASX INFORMATION

NOTE 1 - DESCRIPTION OF BUSINESS (CONT.):

B. The Company incurred a negative cash from operation of \$1.7 million, net loss of \$1.5 million for the year ended 2019 and generated \$9.4 million of accumulated losses 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 are measured at fair value. The Company has elected to present the statements of comprehensive loss 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, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

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ADDITIONAL ASX INFORMATION

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 profit or 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.

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 financial derivative 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.

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ADDITIONAL ASX INFORMATION

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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. 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 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).

Financial assets

The Company classifies its financial assets into one of the following categories, based on the business model for managing the financial asset and its contractual cash flow characteristics. The Company's accounting policy for the relevant category is as follows:

Amortized cost: these assets arise with the objective to be held by the Company in order to collect contractual cash flows: payments of principal and interest. These assets are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

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ADDITIONAL ASX INFORMATION

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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: the financial derivative is measured at fair value through profit or loss and re-measured each reporting date, with changes in fair value recognized in finance expense (income). In addition, transaction costs are also 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.

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.

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ADDITIONAL ASX INFORMATION

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Leases

The accounting policy applied until December 31, 2018 is as follows:

Leases are classified at their inception as either operating or finance leases based on economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases- accounting as a lessee

The minimum lease payments made under operating leases are charged against profits in equal installments over the accounting periods covered by the lease term. The cost of improvements to or on leased property is capitalized, disclosed as leasehold improvements and amortized over the shorter between the leasehold improvements economic life and the operating lease period.

Operating Leases- accounting as a lessor

Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities.

The accounting policy applied as from January 1, 2019 is as follows:

IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

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 is different from the amounts for tax purposes, 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 benefit 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).

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ADDITIONAL ASX INFORMATION

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 Company 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.

Revenue recognition

Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

- Revenues from the sale of goods are recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery of the product.

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 2019 and 2018 the company did not meet the following criteria therefore all the development costs recognized as expenses.

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ADDITIONAL ASX INFORMATION

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New IFRSs initially applied in the period

IFRS 16 Leases

The Company initially applied IFRS 16 with a transition date of January 1, 2019. The Company has chosen not to restate comparatives on adoption of the standard, and therefore, the revised requirements are not reflected in the prior year financial statements. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. The Company does not have significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilized

The Company initially applied IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (January 1, 2019), without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following recognition exemptions when applying IFRS 16:

- For leases with less than 12 months of lease term remaining as of the date of initial application, the Company applied the recognition exemptions allowing not to recognize right-of-use assets and liabilities.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at January 1, 2019:

	December 31, 2018		
	As originally		January 1,
	Presented	IFRS 16	2019
Non-current assets:			
Right of use assets	-	105	105
Current liabilities:			
lease liabilities	-	(64)	(64)
Non-current liability:			
lease liabilities	-	(41)	(41)

Included in profit or loss for the period are 61 of amortisation of right-of-use assets and 2 of finance expense on lease liabilities.

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ADDITIONAL ASX INFORMATION

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New IFRSs initially applied in the period (cont.):

IFRS 16 Leases (cont.):

Significant Accounting Policies subsequent to Transition

All leases are accounted for by recognising a right-of-use asset and a lease liability.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the Company if it is reasonable certain to exercise that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

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ADDITIONAL ASX INFORMATION

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New IFRSs initially applied in the period (cont.):

IFRS 16 Leases (cont.):

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining useful life of the right of use, if rarely, this is judged to be shorter than the lease term. In the scenario of purchase of an option over an asset, the Company will amortize the right of use assets over its useful life. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease the remeasurement being recognized as an adjustment to the right of use assets. The following is a reconciliation of the Company's liabilities in respect of operating leases disclosed in the financial statements as of December 31, 2018, discounted at the incremental interest rate on the initial implementation date and lease commitments recognized on January 1, 2019

Operating lease commitments as of December 31, 2018	112
Weighted average incremental borrowing rate as of January 1, 2019	6.2%
Lease liabilities as of January 1, 2019	105

Right of use assets

	Property lease	Vehicle lease	Total
At January 1, 2019	84	21	105
Additions	-	-	-
Amortisation	50	11	61
At December 31, 2019	34	10	44

Lease liabilities

	Property lease	Vehicle lease	Total
At January 1, 2019	84	21	105
Additions	-	-	-
Interest on lease liabilities	2	*	2
Principal paid on lease liabilities	(53)	(11)	(64)
At December 31, 2019	33	10	43

* Less than US\$ 1 thousands.

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ADDITIONAL ASX INFORMATION

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET:

	Computers and electronic equipment	Furniture and equipment	Lab equipment	Total
Cost				
As of January 1, 2019	6	11	143	160
Additions	-	1	-	1
As of December 31, 2019	6	12	143	161
Accumulated depreciation				
As of January 1, 2019	4	2	33	39
Additions	2	1	27	30
As of December 31, 2019	6	3	60	69
Net Book Value:				
As of December 31, 2019	-	9	83	92

	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

* Less than US\$ 1 thousands.

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ADDITIONAL ASX INFORMATION

NOTE 4 - FINANCIAL DERIVATIVE:

Warrants granted to Investor upon raising capital:

- a. On the last quarter of 2018 the Company has completed a placement raising an aggregate amount of AUD 2,819,000 (Approx. US\$ 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 financial derivative 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 US\$.
- b. On January 25, 2019 the Company has completed a placement raising an aggregate amount of AUD 331,000 (Approx. US\$ 237) by the issue of 11,033,433 ordinary shares and 3,677,778 warrants. The transaction costs were recorded through equity in the amount of US\$ 14.9 and through profit and loss in the amount of US\$ 2.7. The warrants were classified as a financial derivative amounted to US\$ 37 and are re-measured each reporting date, with changes in fair value (including previous issued warrants) 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 in US\$.
- The fair value measurement is determined based on the level 2 fair value hierarchy, thus, inputs other than quoted prices (unadjusted) in active markets that are observable either directly or indirectly.
- c. Reconciliation of liabilities arising from financial activities:

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

	Financial Derivative
As of January 1, 2018	199
Changes from financing cash flows:	
redemption of liability to issue warrants	(153)
Total changes from financing cash flows	(153)
Issuance of warrants (financial derivative)	323
Decrease in fair value of financial derivative	(28)
As of December 31, 2018	341

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ADDITIONAL ASX INFORMATION**NOTE 4 - FINANCIAL DERIVATIVE (CONT.):**

	Derivative liability
As of January 1, 2019	341
Changes from financing cash flows:	
Issuance of warrants (financial derivative) as part of package	37
Decrease in fair value of financial derivative	(292)
As of December 31, 2019	86
	Lease liabilities
As of January 1, 2019	105
Changes from financing cash flows:	
Principal paid on lease liabilities	(64)
Interest on lease liabilities	2
As of December 31, 2019	43

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

In September 2019, a legal proceeding was filed against the Company, in which a former consultant claims eligibility for options that were not granted. As part of the preliminary proceedings, the former employee has made a claim for loss due to the non-grant of options. The Company refutes the claim and is defending the legal proceeding.

At the reporting date, the Company's legal advisers indicated that the probability of the claim cannot be determined with sufficient certainty. Due to inability of legal advisors to assess the plausibility of the claim, the Company did not recognize any provision.

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NOTE 6 - ISSUED CAPITAL:

Movements in fully paid ordinary shares

	Date	Number
Balance as of 1.1.2018		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
	December 31, 2018	165,105,981*
Issue CDI's for placement	January 25, 2019	11,033,433
Issue of shares based payment	March 13, 2019	400,000
Issue of shares based payment	March 19, 2019	600,000
Performance rights converted into shares	March 19, 2019	3,000,000
Balance at end of the period	December 31, 2019	180,139,414*

** 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 wave all rights arising from such securities.*

Each Share of the Company confers upon the Shareholder:

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

- 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.
- 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).
- 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 (see also note 4) to investors in the amount of AU\$ 331,000 (approx. US\$ 237). In addition, the Company issued 10,000,000 warrants as a broker fee to the lead manager.
- On March 13, 2019 the Company issued 400,000 ordinary shares (see also note 7) to a director for nil cash in consideration for consulting services.

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ADDITIONAL ASX INFORMATION

NOTE 6 - ISSUED CAPITAL (CONT.):

- E. On March 19, 2019 the Company issued 600,000 ordinary shares (see also note 7) to one of its employees of the Company for service provided.
- F. On March 19, 2019 3,000,000 Class A performance rights (see also note 7) were converted to shares ordinary shares on 1:1 basis.

NOTE 7 - SHARE BASED COMPENSATION:

A. Share based payments:

For share based payments issued, see notes 6.D and 6.E.

B. Warrants granted to service providers:

On January 25, 2019, the Company issued 10,000,000 warrants as a broker fee to the lead manager (see note 4.C). The warrants have an exercise price of AUD 0.06 per share and will be expired upon 4 years from issuance. The warrants were valued using an adjusted form of the Black Scholes (1973) model.

C. Performance rights:

For performance rights converted to ordinary shares, see note 6.F.

NOTE 8 – RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31, 2019	Year ended December 31, 2018
Payroll and related expenses	222	240
Raw materials	14	46
Other expenses	78	77
Total	314	363

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ADDITIONAL ASX INFORMATION**NOTE 9 – SELLING AND MARKETING EXPENSES:**

	Year ended December 31, 2019	Year ended December 31, 2018
Public Relations and promotion marketing	167	193
Payroll and related expenses	38	170
Other expenses	-	14
Total	205	377

NOTE 10 – GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31, 2019	Year ended December 31, 2018
Payroll, directors and related expenses	355	397
Legal expenses	287	303
Management fee	158	230
Professional fees	143	136
Listing expenses	18	19
Travel expenses	14	-
Other expenses	217	329
Total	1,192	1,414

NOTE 11 - 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, 2019	Year ended December 31, 2018
Loss for the year	(1,471)	(2,201)
Weighted average number of ordinary shares	178,572,374	83,155,794
Basic and diluted loss per share (in \$)	(0.008)	(0.026)

NOTE 12 - TAXES ON INCOME:**A. Tax Rate Applicable to Income in Israel:**

Israeli corporate tax rates are 23% in 2018 and 23% in 2019.

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

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ADDITIONAL ASX INFORMATION**NOTE 12 - TAXES ON INCOME (CONT.):****B. Net accumulated losses carry forwards:**

As of December 31, 2019, the Company has estimated carry forward tax losses of approximately \$6,300 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, the Company did not to recognize a deferred tax asset.

C. Reconciliation between tax expense and accounting loss:

	Year ended December 31, 2019	Year ended December 31, 2018
Loss before taxation	(1,471)	(2,201)
Tax credit at applicable statutory rate 2019: 23% (2018: 23%)	338	506
Nondeductible expenses	(9)	(18)
Tax losses for which no deferred tax asset is recognized	(329)	(488)
Accounting loss	-	-

NOTE 13 - 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 - expenses	Year ended December 31, 2019	Year ended December 31, 2018
Short term salary expenses to CEO	167	192
Short term salary expenses to CFO	60	84
Fees to directors	192	149

Liabilities to related parties:

Name	Nature of transaction	Account name	December 31, 2019	December 31, 2018
Key management personnel	Accrued management fee	Accrued expenses	29	29

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NOTE 14 - 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.

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, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	472	1,983
Restricted cash	-	19
Other receivables	8	-
Total	<u>480</u>	<u>2,002</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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ADDITIONAL ASX INFORMATION

NOTE 14 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk (cont.):

Assets	December 31, 2019			
	NIS	AUD	USD	Total
Cash and cash equivalents	24	248	200	472
Other receivables	8	-	-	8
	<u>32</u>	<u>248</u>	<u>200</u>	<u>480</u>
Liabilities				
	NIS	AUD	USD	Total
Trade and other payables	101	-	-	101
Lease liabilities	43	-	-	43
Financial derivative	-	86	-	86
	<u>144</u>	<u>86</u>	<u>-</u>	<u>230</u>
Net	<u>(112)</u>	<u>162</u>	<u>200</u>	<u>250</u>

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
Financial derivative	-	341	341
	<u>185</u>	<u>341</u>	<u>526</u>
Net	<u>(147)</u>	<u>1,080</u>	<u>933</u>

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ADDITIONAL ASX INFORMATION**NOTE 14 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):****Sensitivity analysis:**

A 10% strengthening of the United States Dollar against the New Israeli Shekel would have 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% strengthening of the United States Dollar against the Australian Dollar would have and opposite impact on the profit and other equity.

	Year ended December 31, 2019	Year ended December 31, 2018
Linked to NIS	(111)	(147)
	10%	10%
	(11)	(15)
Linked to AUD	248	1,421
	10%	10%
	25	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.

At December 31, 2019	Up to 3 Months	Between 3 and 12 months	Between 1 and 2 year	Between 2 and 5 years	Over 5 years
Trade payables	126	-	-	-	-
Total	126	-	-	-	-
At December 31, 2018	Up to 3 Months	Between 3 and 12 months	Between 1 and 2 year	Between 2 and 5 years	Over 5 years
Trade payables	185	-	-	-	-
Total	185	-	-	-	-

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ADDITIONAL ASX INFORMATION

NOTE 14 - 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 472. Management does not believe that there are significant capital risks in the near future.

Fair value of financial liabilities:

Items carried at fair value as of December 31, 2019 and 2018 are classified in the table below:

	Fair value measurements using input type			
	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial derivative	-	(86)	-	(86)

	Fair value measurements using input type			
	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial derivative	-	(341)	-	(341)

NOTE 15 - SUBSEQUENTS EVENTS:

- A.** On January 29, 2020 the Company's CEO, Mr Haim Cohen, resigned and Mr Piers Lewis would assume the position of interim CEO once Mr Cohen had served out his notice period.
- B.** On January 13, 2020 the Company appointed Dr James Ellingford as Non-Executive Chairman of the Company.

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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.

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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 27 February 2020 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 27 February 2020 has issued the following unlisted securities:

- 50,638,692 unlisted options; and

2. Distribution of Equity Securities (Shareholders and CDI Holders) at 27 February 2020:

Range	Units	%	Holders
100,001 and Over	156,496,726	86.88	240
10,001 to 100,000	21,291,915	11.82	513
5,001 to 10,000	1,413,805	0.78	170
1,001 to 5,000	929,424	0.52	327
1 to 1,000	7,538	0.00	39
Total	180,139,408*	100.00	1,289

The number of investors holding a less than marketable parcel of ESE shares was 943.

** 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 27 February 2020**

	Name	Number of Shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,202,432	8.44
2	JAMBER INVESTMENTS PTY LTD	10,000,000	5.55
3	CITICORP NOMINEES PTY LIMITED	8,725,666	4.84
4	ROMFAL SIFAT PTY LTD	6,782,365	3.77
5	BENJAMIN KARASIK	6,298,226	3.50
6	ATLANTIC CAPITAL GROUP P/L	5,483,815	3.04
7	RIMOYNE PTY LTD	3,429,341	1.90
8	IBI TRUST MANAGEMENT	2,847,187	1.58
9	NITZAN ORGAL	2,418,412	1.34
10	MR PHILIP JOHN CAWOOD	2,400,000	1.33
11	MR RON KALFON	2,354,170	1.31
12	DR YARON PENN	2,194,030	1.22
13	MR MIROSLAV MICHAEL PETROVIC	2,000,000	1.11
14	MR MICHAEL EDWARD WESTAWAY	1,984,531	1.10
15	CATL PTY LTD	1,700,000	0.94
16	MR VINCENT EDWARD CLARKE	1,696,972	0.94
17	HAIM COHEN	1,623,626	0.90
18	PHEAKES PTY LTD	1,186,987	0.66
19	SUBURBAN HOLDINGS PTY LIMITED	1,100,000	0.61
20	MR AMARJEET SANDHU	1,055,034	0.59
	Total top 20	80,482,794	44.68
	Total Remaining Holders Balance	99,656,614	55.32
	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. Substantial shareholders as at 27 February 2020

	Name	Number of Shares	% Holding
	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,202,432	8.44
	JAMBER INVESTMENTS PTY LTD	10,000,000	5.55

6. Restricted Securities Subject to Escrow

The following securities are subject to escrow as at 27 February 2020:

	Name	Number of Securities	Escrow Period Expiry
	N/A		

7. On-market buy back

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