eSense–Lab Ltd
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	eSense-lab Limited
ARBN:	616 228 703
Reporting period:	For the year ended 31 December 2020
Previous period:	For the year ended 31 December 2019

2. Results for announcement to the market

			31-Dec-20 US$'000	31-Dec-19 US$'000
Revenues from ordinary activities	down	77%	3	13
Loss from ordinary activities after tax attributable to the owners	up	175%	4,041	1,471
Loss for the year attributable to the owners	up	175%	4,041	1,471

Dividends

There were no dividends paid, recommended or declared during the current financial period or previous financial period, and it is not proposed to pay any dividend.

Comments

During the Reporting Period, the Company was primarily focused on continued research and development in order to strengthen the evidence related to the Company's products and intellectual property.

The Company's total operating revenue decreased to US$3K in FY20 (FY19:US$13K) representing a 77% decrease year on year. Operating loss amounted to US$2,590K (FY19:US$1,720K) representing a 50% increase year on year, and total comprehensive loss amounted to US$4,041K (FY19:US$1,471K) representing a 175% increase year on year. The Company spent US$285K in research and development on its projects, with the remaining loss for the Reporting Period attributable to corporate expenses and overheads, including fundraising fees of US$527K and financial expenses related to convertible loans and share-based expenses in an amount of US$1,348K.

Additional Appendix 4E disclosure requirements can be found in the notes to the attached eSense-Lab Limited preliminary final report.

3. Net tangible assets

	Reporting period U.S. dollars	Previous period U.S. dollars
Net tangible assets per ordinary security	(0.00031)	0.00021

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

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6. Dividend reinvestment plans

Not applicable.

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7. Details of associates and joint venture entities

Not applicable.

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8. Audit qualification or review

The financial report is in the process of being audited.

Given the Company's cash and working capital position, and its reliance on further capital raisings to fund its ongoing operations, the auditors are likely to include an emphasis of matter on going concern in their audit opinion to draw attention to events or conditions, along with other matters, that may indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The audited financial report is scheduled for release in March 2021.

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9. Attachments

The unaudited Preliminary Final Report of eSense-Lab Limited for the year ended 31 December 2020 is attached.

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10. Signed

Signed ______________________

James Ellingford
Non-Executive Chairman

Date: 26 February 2020

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eSENSE-LAB LIMITED

ARBN 616 228 703

PRELIMINARY FINAL REPORT (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2020

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eSENSE-LAB LTD

ARBN 616 228 703

STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2020	December 31, 2019
		US$ In thousands	
CURRENT ASSETS:			
Cash and cash equivalents		351	472
Other receivables		72	28
TOTAL CURRENT ASSETS		423	500
NON-CURRENT ASSETS:			
Right of use assets	3	55	44
Property, plant and equipment, net	4	70	92
TOTAL NON-CURRENT		125	136
TOTAL ASSETS		**548**	**636**
CURRENT LIABILITIES:			
Financial derivative	5	809	86
Convertible loans	6	939	-
Lease liabilities	3	25	43
Trade and other payables		314	126
TOTAL CURRENT LIABILITIES		2,087	255
NON CURRENT LIABILITIES:			
Lease liabilities	3	36	-
TOTAL NON CURRENT LIABILITIES		36	-
SHAREHOLDERS' EQUITY:			
Issued capital	8	9,245	7,761
Reserves		2,061	2,060
Capital surplus		600	-
Accumulated losses		(13,481)	(9,440)
TOTAL EQUITY (DEFICIT)		**(1,575)**	**381**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		**548**	**636**

February 26, 2021
Date of approval of the financial statements

James Ellingford
Chairman

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

STATEMENTS OF COMPREHENSIVE LOSS

	Note	Year ended December 31, 2020	Year ended December 31, 2019
		US$ In thousands	
Revenues		3	13
Cost of revenues		20	8
Gross profit (loss)		**(17)**	**5**
Operating Expenses			
Share based compensation		72	14
Research and development expenses	9	285	314
Selling and marketing expenses	10	265	205
General and administrative expenses	11	1,951	1,192
Operating loss		**2,590**	**1,720**
Financial income		-	257
Financial expenses		1,451	8
Financial (income) expenses, net		1,451	249
Total comprehensive loss		**4,041**	**1,471**
Loss per share			
Basic loss per share in $	12	(0.012)	(0.008)

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

eSENSE-LAB LTD

ARBN 616 228 703

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Issued Capital	Reserves	Capital surplus	Accumulated Losses	Total
	US$ In thousands				
Balance at January 1, 2019	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**
Changes during the year 2020					
Issuance of shares, net	530	-	-	-	530
Conversion of convertible loans to shares	882	-	-	-	882
Issuance of shared based payment	72	1	-	-	73
Liability to issue shares and warrants to a service provider	-	-	600	-	600
Total comprehensive loss	-	-	-	(4,041)	(4,041)
Balance at December 31, 2020	**9,245**	**2,061**	**600**	**(13,481)**	**(1,575)**

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

STATEMENTS OF CASH FLOWS

	Year ended December 31, 2020	Year ended December 31, 2019
	US$ In thousands	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(4,041)	(1,471)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	86	91
(Increase) Decrease in other receivables	44	12
Increase (Decrease) in trade and other payables	385	(59)
Changes in fair value of financial derivative	657	(292)
Changes in fair value of convertible loans	693	-
Liability to issue shares and warrants to a service provider	600	-
Share based compensation	73	29
Net cash used in operating activities	**(1,503)**	**(1,690)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(5)	(1)
Restricted cash	-	19
Net cash provided by investing activities	**(5)**	**18**
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares, net	442	186
Issuance of convertible loans, net	931	-
Principal and interest paid on lease liabilities	(52)	(62)
Issuance of warrants derivative as part of issued shares	49	37
Issuance of warrants derivative as part of convertible loans	17	-
Net cash provided by financing activities	**1,387**	**161**
Decrease in cash and cash equivalents	**(121)**	**(1,511)**
Cash and cash equivalents at the beginning of the period	472	1,983
Cash and cash equivalents at the end of the period	**351**	**472**

APPENDIX A - NON-CASH ACTIVITIES:

Recognition of right of use assets and lease liabilities	70	-
Issuance of shares against other accounts receivables	88	-

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

A. General

eSense-Lab Ltd. (the "Company") (ASX Code: ESE) was incorporated on April 13, 2016 under the Israeli law and commenced 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 February 14, 2017, after the Company raised AU$3.5 million (US$ 2.67 million) via the issue of 17,500,000 Chess Depositary Interest CDI (hereafter "ordinary shares"), a financial product which is a unit of beneficial ownership in an underlying financial product which is quoted on the ASX market, at AU$0.20 per share. A reference to a CDI in this report refers also to its underlying share (unless the context suggests otherwise) and vice versa.

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. The Company’s technology is also intended to be applied to other lucrative target plants in the future such as ginseng, saffron, sandalwood and other rare or valuable plants or spices.

B. Going concern

We draw the attention to the fact that the Company incurred net loss of US$4 million for the year ended 2020, and has generated US$13 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. In addition, no adjustments were made, in the financial statements, to the values or classification of the assets and liabilities that may be required

NOTE 1 - DESCRIPTION OF BUSINESS (CONT.)

B. Going concern (cont.)

if the Company shall cease to continue as a going concern. Management plans to overcome these uncertainties by continuing to closely monitor cash burn as well as reviewing funding opportunities. In addition, the Company's management believes that the Company will be able to pay its debts when they fall due, and to finance the ongoing activities based on proceeds from future fund raising of debt and equity.

C. COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread globally as well as in both Israel and Australia where the Company’s operations are based. The spread of COVID-19 has caused significant volatility in Australian and international markets. The effect of the pandemic over the Company's business was not material since the Company is still mainly in a research and development phase (which continued as usual) and the Company has yet to generate significant revenues.

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.

Foreign currency

The financial statements 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.

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.

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.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability, except for leases with a duration of 12 months or less.

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.

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.

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).

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 2020 and 2019 the company did not meet the following criteria therefore all the development costs recognized as expenses.

NOTE 3 - LEASES

Right of use assets	US$ In thousands		
	Property lease	**Vehicle lease**	**Total**
At January 1, 2019	84	21	105
Additions	-	-	-
Depreciation	50	11	61
At December 31, 2019	**34**	**10**	**44**
Additions	-	70	70
Depreciation	34	25	59
At December 31, 2020	-	**55**	**55**

Lease liabilities	US$ In thousands		
	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**
Additions	-	70	70
Interest on lease liabilities	3	5	8
Principal paid on lease liabilities	(36)	(24)	(60)
At December 31, 2020	**-**	**61**	**61**

* Less than US$ 1 thousands.

Commencing from September 10, 2020, the Company holds short term lease arrangements, accordingly the Company elected not to recognize a lease liability and right-of-use asset for leases whose term ends within 12 months of the date of initial application, and instead accounted for such leases as short-term leases.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT, NET

	US$ In thousands			
	Computers and electronic equipment	**Furniture and equipment**	**Lab equipment**	**Total**
Cost				
As of January 1, 2020	6	12	143	161
Additions	5	-	-	5
As of December 31, 2020	11	12	143	166
Accumulated depreciation				
As of January 1, 2020	6	3	60	69
Additions	1	1	25	27
As of December 31, 2020	7	4	85	96
Net Book Value:				
As of December 31, 2020	4	8	58	70

	US$ In thousands			
	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

* Less than US$1 thousand.

NOTE 5 - FINANCIAL DERIVATIVE

A. On January 25, 2019 the Company completed a placement raising an aggregate amount of AU$331,000 (Approx. US$237,000) 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$14,900 and through profit and loss in the amount of US$ 2,700. The warrants were classified as a financial derivative amounted to US$37,000 and are re-measured each reporting date, with changes in fair value (including previous issued warrants) recognized in finance expense (income), net, since the exercise price of the warrants is denominated in AUD and the functional currency of the company is in US$. 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.

B. On April 2, 2020, the Company completed an AU$50,000 (Approx. US$35,000) capital raising through the issue of an unsecured convertible loan to an investor, without any coupon rate, designated at fair value. On June 24, 2020, the convertible loan was converted to 12,500,000 ordinary shares. In addition, the Company also issued 6,250,000 warrants (exercisable at $0.01 each and which expire 18 months after their date of issue)

C. On April 14, 2020, the Company completed an AU$250,000 (approx. US$ 171,000) capital raising through the issue of an unsecured convertible loan to several investors, designated at fair value. The convertible loan had a coupon rate of 12% per annum and a maturity date of 1 September 2020. On June 29, 2020, the convertible loan was converted to 62,500,000 ordinary shares. In addition, the Company also issued 31,250,000 warrants (exercisable at $0.01 each and which expire 18 months after their date of issue).

D. On June 24, 2020, the Company completed a placement raising an aggregate amount of AU$ 895,000 (Approx. US$619,000) by the issue of 223,750,000 ordinary shares at an issue price of $0.004 per share, and 111,875,000 warrants (exercisable at $0.01 each and which expire 18 months after their date of issue) to investors.
Transaction costs: on June 24, 2020, the Company issued 15,000,000 shares, 40,000,000 warrants (exercisable at $0.01 each and which expire 18 months after their date of issue) and paid cash (approx. US$ 37,000) as a broker fee to the lead manager. The warrants were valued using an adjusted form of the Black Scholes (1973) model. The total transaction cost (including the cash) amounted to US$227,000, out of which some were recorded at net equity and as some through profit and loss (attributed to the derivative financial liability).

E. All The warrants issued to investors, described in notes 5.B - 5.D (excluding the warrants in the transaction cost), were classified as a derivative liability 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 AU$ 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 which are observable either directly or indirectly.

F. 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 US$ in thousands
As of January 1, 2019	**341**
Issuance of warrants (financial derivative) as part of package	37
Decrease in fair value of financial derivative	(292)
As of December 31, 2019	**86**
Issuance of warrants derivative as part of issued shares	49
Issuance of warrants derivative as part of convertible loans	17
Changes in fair value of warrants derivative as part of issued shares	490
Changes in fair value of warrants derivative as part of convertible loans	167
As of December 31, 2020	809

NOTE 6 - CONVERTIBLE LOANS

A. On June 24 and June 29, 2020, the convertible loans were converted to 12,500,000 ordinary shares and 62,500,000 ordinary shares (see also note 5.B and 5.C) accordingly.

B. Between October and December, 2020, the Company completed an AU$1,216,000 (approx. US$ 939,000) capital raising via convertible loans from several investors, designated at fair value. The convertible loans have a coupon rate of 12% per annum and a maturity date of 30 November 2021. The convertible loans are repayable: (a) subject to shareholder approval, by conversion into Chess Depositary Interests (CDIs) at an issue price of $0.018 per CDI, together with one free attaching option for every CDI issued (exercisable at $0.018, expiring 12 months from the date that the Company’s securities are reinstated to trading on ASX); or (b) in cash on 30 November 2021.

Transaction costs: the Company will issue 6,080,000 shares, 135,111,110 warrants (exercisable at AU$0.018 each, expiring 12 months from the date that the Company’s securities are reinstated to trading on ASX) and paid cash (approx. US$ 62,000) as a broker fee to the lead manager. The warrants were valued using an adjusted form of the Black Scholes (1973) model. The total transaction cost (including the cash) amounted to US$523,000, out of which some were recorded at equity and as some through profit and loss.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

In September 2019, a legal proceeding was filed against the Company, in which a former employee claimed eligibility for options not granted. In August 2020, the legal proceeding was turned down (found in favour of the Company).

NOTE 8 - ISSUED CAPITAL

Movements in fully paid ordinary shares

	Date	Number
Balance as of 1.1.2019		**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 as of 1.1.2020	**December 31, 2019**	**180,139,414***
Issue CDI's for placement	June 24, 2020	223,750,000
Conversion of convertible loans to shares	June 24, 2020	12,500,000
Issue of shares based payment	June 24, 2020	19,611,111
Issue CDI's to a former CEO	June 24, 2020	2,000,000
Conversion of convertible loans to shares	June 29, 2020	62,500,000
Balance at end of the period	**December 31, 2020**	**500,500,525***

** 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:

a) The right to one vote at a meeting of the Shareholders of the Company or on any Resolution of Shareholders; In the case of a CDI holder, they do not have the right to vote at meetings, and rather, must direct the CHESS Depository Nominee on how to vote, in advance of the applicable meeting;

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. On January 25, 2019 the Company completed a capital raising that was announced in October 2018 and issued 11,033,433 ordinary shares and 3,677,778 warrants (see also note 5.A) 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. The warrants have an exercise price of AU$0.06 per share and an expiry date of 4 years from issuance. The warrants were valued using an adjusted form of the Black Scholes (1973) model.

B. On March 13, 2019 the Company issued 400,000 ordinary shares to a director for nil cash in consideration for consulting services.

C. On March 19, 2019 the Company issued 600,000 ordinary shares to one of its employees of the Company for service provided.

D. On March 19, 2019 3,000,000 Class A performance rights were converted to shares ordinary shares on 1:1 basis.

E. On June 24, 2020, a convertible loan was converted to 12,500,000 ordinary shares (see also note 5.B).

F. On June 29, 2020, a convertible loan was converted to 62,500,000 ordinary shares (see also note 5.C).

G. On June 24, 2020, the Company completed a placement, raising an aggregate amount of AU$895,000 (Approx. US$619,000) by the issue of 223,750,000 ordinary shares at an issue price of $0.004 per share (see also note 5.D).

H. On June 24, 2020, the Company issued 4,611,111 ordinary shares to service providers for nil cash in consideration for services provided to the Company. The fair value of the shares was US$54,000.

I. On June 24, 2020, the Company issued 2,000,000 ordinary shares to the Company's (now former) CEO. The fair value of the shares was US$24,000.

J. In July 2020, the Company entered into an exclusive sales agency agreement with United States based Blue Science Solutions LLC (“Distributor”). The Company has agreed to issue to the Distributor (or its nominees) 10,000,000 CDIs in the capital of the Company, at a deemed issue price of $0.01 each, in return for the Distributor agreeing to distribute the Company’s products through its networks. As at the reporting date, the CDIs mentioned above were not issued yet, however were recognized at fair value at the date of the transaction in amount of US$139,000.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - RESEARCH AND DEVELOPMENT EXPENSES

	US$ in thousands	
	Year ended December 31, 2020	Year ended December 31, 2019
Payroll and related expenses	203	222
Raw materials	-	14
Other expenses	82	78
Total	**285**	**314**

NOTE 10 - SELLING AND MARKETING EXPENSES

	US$ in thousands	
	Year ended December 31, 2020	Year ended December 31, 2019
Public Relations and promotion marketing (*)	265	167
Payroll and related expenses	-	38
Total	**265**	**205**

(*) Including marketing expenses in amount of US$139,000 to the Distributor. See note 8.J.

NOTE 11 - GENERAL AND ADMINISTRATIVE EXPENSES

	US$ in thousands	
	Year ended December 31, 2020	Year ended December 31, 2019
Issuance expenses	527	18
Payroll, directors and related expenses	513	355
Legal expenses	368	287
Management fee	222	158
Professional fees	56	143
Travel expenses	26	14
Other expenses	239	217
Total	**1,951**	**1,192**

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, 2020	Year ended December 31, 2019
Loss for the year (US$ in thousands)	(4,041)	(1,471)
Weighted average number of ordinary shares	345,593,269	178,572,374
Basic and diluted loss per share (in US$)	(0.012)	(0.008)