# eSENSE-LAB LTD

**ARBN 616 228 703**

## ANNUAL REPORT FOR YEAR ENDED DECEMBER 31, 2020

**eSense-Lab Ltd**
**ARBN 616 228 703**
**ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2020**
**CORPORATE DIRECTORY**

**Directors**

| | | |
|---|---|---|
| Dr James Ellingford | - | Non-Executive Chairman |
| Mr Peter Hatfull | - | Non-Executive Director |
| Mr Winton Willesee | - | Non-Executive Director |

**Chief Executive Officer**
Mr Yoav Elishoov

**Joint Company Secretaries**
Mr Winton Willesee
Ms Erlyn Dale

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**Auditor**
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**Australian Legal Advisor**
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**Israeli Legal/Company Secretarial Advisor**
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**Share Registry**
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Telephone: +61 8 9211 6670

**Website**
esense-lab.com

**ASX Code**
ESE

## Review of Operations and Activities for the Reporting Period

### Description of the Business

**eSense-Lab Ltd** (the "**Company**" or “eSense”) (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 of the Australian Securities Exchange (“**ASX**”), with trading commencing on February 14, 2017. This was after the Company raised AUD 3.5 million (US$2.67 million) via the issue of 17,500,000 Chess Depositary Interests (hereafter "**ordinary shares**" or “**CDIs**”), 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 also refers to its underlying share (unless the context suggests otherwise) and vice versa.

eSense is a research and development company specialising in terpene technology. The Company’s initial development was based on a “reverse engineer” technology that was specially designed to create a commercial phytochemical profiling of plants, focusing on their terpene signature. A comprehensive terpene analysis of a targeted plant was implemented, followed by reconstruction of an identical terpene signature by using alternative raw and naturally occurring materials.

The Company’s initial focus was on the development and manufacturing of terpene profiles of the cannabis plant. By using this technology, eSense has successfully created highly accurate terpene profiles of various cannabis strains, made of 100% natural ingredients, and with no psychoactive components. Hence, the Company was able to provide cannabis terpene profiles which were legal in countries or states where cannabis is illegal.

As is usually the case with new, fast growing trends, the competition grew rapidly, and with vague regulatory standards, simpler products flooded the market, such as synthetic terpene strains, at the expense of high-end natural products. With a product line that still has a viable market; eSense was looking forward to new horizons.

Toward the year 2020 the Company brought in a new executive team, and with the existing R&D team, the Company was looking to expand its potential in global markets and implement new growth strategies. The R&D vision has evolved to reach beyond terpene based cannabis flavoring, and dived deep into the wellbeing essence of the terpenes. The Company came up with a “Terpene Discovery” methodology which allows it to identify an unmet need in disease treatment, and track specific terpenes or cannabis derived profiles that are supported by evidence, to alleviate the conditions of such a disease efficiently. The Company applied this approach to its development of an evidence-based terpene profile specifically designed to neutralize HCov-OC43 Corona strain virus. Based on successful anti-viral experiments conducted at the Central Virology Lab of the Israeli Medical Health Institute at Sheba Hospital, the Company is now in the process of building joint ventures to commercialise a terpene-based solution for the sanitising industry. In light of this success, the Company’s vision has pivoted to focus on using evidence-based science to create improved natural consumer products, where terpenes play a role in the efficacy and quality of these products. The assurance that our claims are tested and validated with strong data has assisted us to create joint venture opportunities to commercialise end products targeting the consumer health and wellbeing sectors, in cannabis and non-cannabis fields.

### Research activity and Joint Ventures

During the year 2020, an aggressive global spread of a life-threatening Corona virus strain termed Severe Acute Respiratory Syndrome- Coronavirus 2 (SARS-CoV-2) has produced an epidemic of Corona virus disease called COVID-19. As terpenes are well known for their anti-viral activity, the Company has leveraged its advantage, and invested great efforts in developing a safe and natural based terpene solution to fight COVID-19.

- **Joint Research with Israeli Ministry of Health**

  eSense's R&D team has conducted an extensive literature search to collect established scientific data indicating the most effective anti-viral terpenes. Research combined with eSense's strong terpene expertise has enabled the development of two proprietary terpene mixes termed TRP-ENV and TRP-COV aimed specifically at neutralising envelope viruses. The company entered into a research agreement with the Central Virology Lab of the Israeli Ministry of Health ("**MOH**") at Sheba Hospital, where these two proprietary anti-viral terpene blends were tested for their anti-coronavirus activity against HCov-OC43, a weak Corona strain. The research agreement began with testing the anti-viral activity of TRP-ENV and TRP-COV as standalone blends, following their pre-incubation in the presence of the virus for a short time frame (1, 3, 10 and 30 min). The obtained results demonstrated TRP-ENV to be an effective anti-coronavirus profile that was far more active than TRP-COV and therefore was further implemented in later combination studies with other active ingredients. Encouraging results obtained from the combination studies provided the Company with substantial scientific support to engage in joint venture arrangements for potential commercialisation of sanitiser-based products to fight against COVID-19.

- **Wise Wine**

  Wise Wine is an Australian winery that produces ethanol from grapes. Our study at MOH showed strong anti-viral activity of Wine Wise's ethanol in combination with TRP-ENV blend. As such, our goal was to develop a stable formulation that includes both Wise Wine ethanol and TRP-ENV, to bring a cosmetic grade hand sanitizer for commercialisation. As Wise Wine's ethanol is uniquely derived from grapes, a number of surmountable challenges arose through the formulation development process.. Fortunately, eSense's R&D experts conducted comprehensive studies to decipher the exact formulation characteristics required to deliver a stable and effective gel-based hand sanitiser. The formula was developed in a lab scale and is now ready for industrial scale up and mass production.

- **SeaLaria**

  SeaLaria is an Israeli company that develops proprietary gelatinised red algae extract that can be used as an active ingredient in cosmetic and well-being products. Our anti-coronavirus study at MOH showed that a combination of SeaLaria's gelatinised red algae paired with the Company's TRP-ENV blend, results in immediate anti-viral activity that was as effective as 70% ethanol. As such, eSense's R&D team entered into a formula development process in an effort to create formula that will introduce the lipophilic TRP-ENV into a water-based sanitising gel matrix, without affecting its stability and efficacy. Months of an extensive development activity resulted in a ready-to-go gel-based formula, suitable for hand sanitising, that comprises of an encapsulated form of TRP-ENV to protect it from being exposed to degradation induced by the aqua phase of the formula. The formula was developed in lab scale and is now ready to enter the adaptation phase required for industrial scale-up and mass production, which is the next level of activities planned for 2021.

- **BetterAir**

  BetterAir is an Israeli company which specialises in the development of microbiome based anti-bacterial technology for surface and atmosphere sanitising. The Company's goal was to develop a custom-made terpene blend that can co-exist with BetterAir's microbiome technology and provide a complementary sanitising effect against Corona virus. As such, eSense's R&D team entered into a terpene discovery process which included a screening phase to select specific terpene candidates that can co-existence with BetterAir's microbiome. During the screening phase, each terpene from our reach library entered into a tolerance test upon BetterAir's microbiome, which led to the selection of few individual terpenes that showed minimal toxicity upon BetterAir's microbiome. The selected terpenes, which also have good potential for an anti-coronavirus activity, were mixed in various ratios to create many potential blends with different aroma characteristics, followed by selection of few blend candidates that were characterised as having a good aroma. The selected blends entered into an additional selection round for co-existence with BetterAir's microbiome, with a final blend chosen and termed TRP-BIO. TRP BIO is intended to be evaluated at MOH for synergistic anti-viral effects with BetterAir's microbiome in early 2021.

- **Blue Science, ANC**

  The Company is continuing to work with Blue Science Solutions LLC to develop and distribute its sanitiser products in the United States. The definition of the most desired product line is nearing completion, and the process of sourcing the required sanitiser product line has been high graded, with a finished product line anticipated in the second half of 2021.

  The Company is continuing to prepare for the manufacturing and production of its product with ANC Enterprises Pty Ltd, and is awaiting the outcome of its testing with Blue Science, in order to determine the correct product line before commencing the process of manufacturing and distribution of its terpene infused sanitiser line.

### Likely developments and expected results of operations

eSense's operations are expected to be commercially realised, with an alcohol-free sanitising product intended to be produced in collaboration with SeaLaria during 2021. In addition, following encouraging results obtained from the anti-viral experiments conducted with BetterAir's bacteria, it was agreed between both companies that a further evaluation is required to prove feasibility through the use of their spraying technology.

### Corporate

- **Board and Management Changes**

  The following changes to Board and management occurred throughout the reporting period:

  - On 13 January 2020, the Company appointed Dr James Ellingford as Non-Executive Chairman of the Company.
  - On 28 January 2020, Mr Haim Cohen resigned from his position as Chief Executive Officer of the Company, and Mr Piers Lewis assumed the role of interim Chief Executive Officer following the conclusion of Mr Cohen's notice period.
  - On 9 March 2020, the Company appointed Mr Itzik Mizrahi as Chief Executive Officer of the Company.
  - Mr Michael Edwards resigned as a Non-Executive Director of the Company on 27 March 2020.
  - Mr Amit Edri resigned as a Non-Executive Director of the Company on 8 June 2020.
  - On 2 July 2020, the Company appointed Mr Peter Hatfull as a Non-Executive Director of the Company, and Mr Piers Lewis resigned as a Non-Executive Director of the Company.
  - On 31 July 2020, the Company appointed Mr Winton Willesee as a Non-Executive Director of the Company.
  - Mr Benjamin Karasik resigned as a Non-Executive Director of the Company on 31 October 2020.

- On 4 December 2020, the Company appointed Mr Yoav Elishoov as Global Chief Executive Officer of the Company, with Country Chief Executive Officer Mr Itzik Mizrahi, departing the Company at the end of February 2021.

- **Update on External Director Appointments and Voluntary Suspension**

  The Company's securities were suspended from trading on 27 July 2020 until the appointment by Shareholders of two External Directors at a general meeting of the Company ("**General Meeting**"), and pending the response by the Company to certain queries from ASX. Refer to the Company's ASX announcement dated 31 July 2020.

  The Company is continuing to participate in ongoing dialogue with the ASX, and is endeavouring to respond to its queries as efficiently as possible.

  As disclosed previously, having regard to independent legal advice received by the Company to date, the Company does not consider the matters identified (including in respect of Board composition) to have the effect of invalidating any material actions or decisions of the Board, nor any material transactions undertaken by the Company during any periods of non-compliance. Further, to the extent that these matters require rectification, that rectification can be lawfully achieved by either ratification by shareholders at a general meeting to be convened as soon as practicable, or ratification by a compliant and appropriately composed Board, Audit Committee or Remuneration Committee.

  In respect of the appointment of External Directors, as announced on 4 December 2020, the Company has now identified two candidates which it proposes to put forward to shareholders for consideration and appointment as External Directors, being Ms Maayan Bar and Ms Deborah Gilmour.

  Ms Bar and Ms Gilmour would bring professional legal and financial expertise to the Board, and together, the Company believes their appointments as External Directors will strengthen the governance of the Company. Further information about each of these candidates are set out in the announcement released by the Company on 4 December 2020.

  The appointments of Ms Bar and Ms Gilmour are subject to shareholder approval, with further information to be set out in a Notice of Meeting which will be sent to shareholders in due course.

  The Company anticipates being able to provide the market with a more fulsome update in the coming month. The Company thanks Shareholders for their patience during this time, and assures Shareholders that it is committed to navigating the process in the most efficient manner possible.

- **Capital Raising Activities**

  The Company undertook the following capital raising initiatives during the period. Refer to the Notes to the Financial Statements for further information (including transaction costs).

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

  - On April 14, 2020, the Company completed an AU$250,000 (approx. US$171,000) capital raising via unsecured convertible loans from several investors. The convertible loans 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 and 31,250,000 warrants (exercisable at $0.01 each and which expire 18 months after their date of issue).

  - 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 AU$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.

- Between October and December, 2020, the Company completed an AU$1,216,000 (approx. US$939,000) capital raising via unsecured 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. As at the date of this report, these CDIs and Options have not yet been issued.

## Dividends

There were no dividends paid or recommended during the financial year ended 31 December 2020 (2019: Nil).

## Significant changes in the state of affairs

During the financial year, there were no significant changes in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

## Matters subsequent to the end of the financial year

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the entity up to 31 December 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the entity's operations, the results of those operations, or the entity's state of affairs in future financial years.

## Declaration

As a foreign company (incorporated in Israel) registered in Australia, the Company will not be subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Cth), dealing with the acquisition of its shares (including substantial shareholdings and takeovers).

Under the Israeli Companies Law there are restrictions on acquisition of shares, requiring a special tender offer according to the procedures set forth in the Companies Law, for acquisition of public Company shares resulting in holding of 25% or more voting rights of the Company if there is no other shareholder holding 25% or more, and for acquisition of public Company shares resulting in holding of 45% or more voting rights of the Company if there is no other shareholder holding 45% or more. 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.

## Information on Directors

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|---|---|
| **Name:** | **Dr James Ellingford** (appointed 13 January 2020) |
| **Title:** | Non-Executive Chairman |
| **Qualifications:** | Postgraduate in Corporate Management, Masters in Business Administration, Doctorate in Management |
| **Experience and expertise:** | Dr Ellingford previously served as International President of a multi-billion dollar NASDAQ software business Take-Two Interactive Software, with its headquarters in Geneva and New York. He has vast international experience in the software industry and has close ties with financial institutions and governments throughout the world. 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 who dominate this space. 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. |
| **Other current directorships:** | Creso Pharma Limited (ASX:CPH), Roots Sustainable Agricultural Technologies Ltd (ASX:ROO) |
| **Former directorships (last 3 years):** | Manalto Limited (ASX:MTL), Victory Mines Limited (ASX:VIC), MinRex Resources Limited (ASX:MRR), Burrabulla Corporation Limited (ASX:BUA) and Elysium Resources Limited (ASX:EYM) |
| **Special responsibilities:** | Chairman of the Board, Nomination and Remuneration Committee Member |
| **Interests in shares:** | Nil |
| **Interests in options:** | Nil |
| **Contractual rights to shares:** | Nil |

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| Name: | **Mr Peter Hatfull** (appointed 2 July 2020) |
| Title: | Non-Executive Director |
| Qualifications: | Qualified as a Chartered Accountant in England and Wales |
| Experience and expertise: | Mr Hatfull has over 40 years' experience in a range of Board and senior executive positions with Australian and international companies. He has an extensive skill-set in the areas of business optimisation, capital raising and Group restructuring.<br>Mr Hatfull is a professional Director and is currently the independent Chairman of several listed and unlisted companies. Peter specialises in corporate governance and strategic planning and has held senior financial and board positions in Australia, Africa and the UK. Peter graduated as a Chartered Accountant in the United Kingdom where he worked for Coopers and Lybrand (now PriceWaterhouseCoopers), and subsequently moved to Africa, where he spent 8 years in Malawi prior to moving to Australia. |
| Other current directorships: | Rafaella Resources Ltd (RFR:ASX), Roots Sustainable Agricultural Technologies Limited (ASX:ROO) |
| Former directorships (last 3 years): | Affinity Energy and Health Ltd (ASX: AEB) |
| Special responsibilities: | Chairman of the Nomination and Remuneration Committee |
| Interests in shares: | Nil |
| Interests in options: | Nil |
| Contractual rights to shares: | Nil |

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| Name: | **Mr Winton Willesee** (appointed 31 July 2020) |
| Title: | Non-Executive Director |
| Qualifications: | BBus, DipEd, PGDipBus, MCom, FFin, CPA, GAICD, FGIA/FCIS |
| Experience and expertise: | Mr Willesee is an experienced corporate professional with a broad range of skills and experience relevant to ASX listed companies having held directorships and chairmanships with a number of ASX-listed companies over many years. |

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| | Mr Willesee holds formal qualifications in Commerce, Economics and Finance, Accounting, Applied Finance and Investment, Applied Corporate Governance and Education. He is a Fellow of the Financial Services Institute of Australasia, the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators, Graduate of the Australian Institute of Company Directors and a Member of CPA Australia. |
| Other current directorships: | MMJ Group Holdings Limited (ASX:MMJ), Nanollose Limited (ASX:NC6), Neurotech International Limited (ASX:NTI), New Zealand Coastal Seafoods Limited (ASX:NZS), UUV Aquabotix Ltd (ASX:UUV) |
| Former directorships (last 3 years): | Ding Sheng Xin Finance Co Limited |
| Interests in shares: | Nil |
| Interests in options: | 180,000 Options exercisable at $0.01 each on or before 24 December 2021 |
| Contractual rights to shares: | Nil |

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|---|---|
| Name: | **Mr Benjamin Karasik** (resigned 31 October 2020) |
| Title: | Non-Executive Director |
| Qualifications: | Graduate the TECHNY a military school in Haifa in 1964 where he studied to become an aircraft electrical system technician. Graduate Community College in Brooklyn NY in the optical division and hearing aids. |
| Experience and expertise: | Mr. Karasik is one of the founders of 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. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Interests in shares: | 6,298,226 CDIs<br>4,296,915 CDIs+<br>+ *The applicable CDIs remain on a separate sub-register of unlisted securities until a resolution of an authorised body of the Company to move such securities from the sub-register of unlisted securities.* |
| Interests in options (as at the date of his resignation): | Nil |
| Contractual rights to shares (as at the date of his resignation): | Nil |

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| Name: | **Mr Piers Lewis** (resigned 2 July 2020) |
| Title: | Non-Executive Chairman (from 30 November 2018 to 13 January 2020), Non-Executive Director (from 13 January 2020 to 2 July 2020) |
| 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 and expertise: | 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. |
| Other current directorships: | Ultima United Limited (ASX:UUL), Noronex Limited (ASX:NRX) |
| Former directorships (last 3 years): | Digital Wine Ventures Limited (ASX:DW8), Manalto Limited and Cycliq Company Limited (ASX:CYQ) |
| Interests in shares (as at the date of his resignation): | Nil |
| Interests in options (as at the date of his resignation): | Nil |

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| Contractual rights to shares (as at the date of his resignation): | Nil |

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| Name: | **Mr Amit Edri** (resigned 8 June 2020) |
| Title: | Non-Executive Director |
| Qualifications: | B.A. in Business Administration, Arison School of Business |
| Experience and expertise: | 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 processer 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. |
| Other current directorships: | N/A |
| Former directorships (last 3 years): | N/A |
| Interests in shares (as at the date of his resignation): | Nil |
| Interests in options (as at the date of his resignation): | Nil |
| Contractual rights to shares (as at the date of his resignation): | Nil |

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| Name: | **Mr Michael Edwards** (resigned 27 March 2020) |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Business (Economics and Finance), Bachelor of Science (Geology) |
| Experience and expertise: | 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. |
| Other current directorships: | 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 Auroch Mineral Ltd (ASX:AOU) |
| Former directorships (last 3 years): | Non-Executive Director of Dawine Limited (ASX:DW8) |
| Interests in shares (as at the date of his resignation): | Nil |
| Interests in options (as at the date of his resignation): | Nil |
| Contractual rights to shares (as at the date of his resignation): | Nil |

## Additional ASX Information

Additional information required by the ASX Listing Rules which is not disclosed elsewhere, is set out below. The information set out below is as at 10 March 2021.

### 1. Quotation

Listed securities in eSense-Lab Limited are quoted on the Australian Securities Exchange under ASX code ESE (CHESS Depository Interests), and are not quoted on any other exchange.

### 2. Voting Rights

The voting rights attached to the securities of the Company are as follows:

a) Ordinary shareholders have the right to one vote at a meeting of shareholders of the Company, or on any resolution of shareholders.

b) CDI Holders do not hold the right to vote at meetings of the Company, and if they wish to vote, they must direct the CHESS Depositary Nominee (CDN) on how to vote in advance of the applicable meeting. CDI Holders are, however, able to attend all general meetings of the Company.

c) There are no voting rights attached to any Options on issue.

### 3. On Market Buy-Back

There is no on-market buy back in place.

### 4. Restricted Securities

The Company does not have any restricted securities on issue.

### 5. Distribution of Security Holders

#### 5.1 CHESS Depository Interests[1]

| Shares Range | Holders | Units | % |
|---|---|---|---|
| 1 – 1,000 | 39 | 8,833 | 0.00 |
| 1,001 – 5,000 | 307 | 870,454 | 0.17 |
| 5,001 – 10,000 | 162 | 1,346,404 | 0.27 |
| 10,001 – 100,000 | 1,022 | 45,381,168 | 9.07 |
| 100,001 and above | 547 | 452,893,660 | 90.49 |
| Total | **2,077** | **500,500,519**[2,3] | **100.00** |

**Notes:**

1. Chess Depository Interests (CDI's) are financial products which are a unit of beneficial ownership in an underlying financial product which is quoted on the ASX. A CDI confers a beneficial interest in the underlying financial product to which it relates. The holder of a CDI in the Company has a beneficial interest in one fully paid ordinary share in the Company.

2. Excludes 9,537,503 CDIs, which are held on a separate sub-register of unlisted securities. These CDIs will remain on the sub-register of unlisted securities until a resolution of an authorised body of the Company to move such securities from the sub-register is passed. The holders have waived all rights arising from such securities (including voting rights). Six holders each hold parcels of over 100,000 CDIs, making up 100% of these 9,537,503 CDIs on issue. Holders holding in excess of 20% each of this class of CDIs are as follows:

- Benjamin Karasik holds 4,296,915 CDIs, being 45.05% of the CDIs in this class;
- Ariel Malik holds 1,942,471 CDIs, being 20.37% of the CDIs in this class; and
- Eran Gilboa holds 1,942,471 CDIs, being 20.37% of the CDIs in this class.

3. In addition to the above, the Company has on issue 6 unlisted fully paid ordinary shares (over which no CDIs have been granted), with 6 holders each holding 1 share.

As at 10 March 2021, there were 890 holders of unmarketable parcels of less than 27,777 CDIs (based on the closing share price of $0.018 on its last trading day (22 July 2020)).

### 5.2 Unlisted Options

| Class | Quantity on Issue | Distribution of Holders |
|---|---|---|
| **Unlisted Options ($0.06, 20/11/2022)** | 35,000,003 | There are 55 holders, distributed as follows:<br>- 1 - 1,000 securities: 0 holders;<br>- 1,001 – 5,000 securities: 0 holders;<br>- 5,001 – 10,000 securities: 0 holders;<br>- 10,001 – 100,000 securities: 2 holders hold an aggregate 0.40% of the securities on issue;<br>- 100,001 and above securities: 53 holders hold 99.60% of the securities on issue.<br>No holders hold more than 20% of the securities in this class. |
| **Unlisted Options ($0.06, 25/01/2023)** | 10,000,000 | All securities in this class are held by:<br>- Australian Share Nominees Pty Limited (100%) |
| **Unlisted Options ($0.01, 24/12/2021)** | 189,375,000 | There are 81 holders, distributed as follows:<br>- 1 - 1,000 securities: 0 holders<br>- 1,001 – 5000 securities: 0 holders;<br>- 5,001 – 10,000 securities: 0 holders;<br>- 10,001 – 100,000 securities: 58 holders hold an aggregate 1.61% of the securities on issue;<br>- 100,001 and above securities: 23 holders hold an aggregate 98.39% of the securities on issue.<br>No holder holds more than 20% of the securities in this class. |
| **Unlisted Options (NIS0.01, 19/01/2022)** | 638,689 | All securities in this class are held by:<br>- Zvi Vogel (100%) |

## 6. Substantial Shareholders

To the best of the Company's knowledge, the names of the substantial shareholders in the Company and the number of equity securities to which each substantial holder and the substantial holder's associates have a relevant interest, as at 10 March 2021, are as follows:

*Name: Chifley Portfolios Pty Ltd*
*Holder of: 44,500,000 CDIs, representing 8.7% as at 7 July 2020*
*Substantial Holder Notice Received: 7 July 2020*

## 7. Twenty Largest Shareholders as at 10 March 2021

| | Name | Shares Held | % |
|---|---|---|---|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 35,403,305 | 7.07 |
| 2 | MR SCHNEUR ZALMAN SEEWALD | 24,970,000 | 4.99 |
| 3 | CHIFLEY PORTFOLIOS PTY LTD <DAVID HANNON RETIREMENT A/C> | 20,000,000 | 4.00 |
| 4 | VBT PTY LTD | 19,250,000 | 3.85 |
| 5 | ATLANTIC CAPITAL GROUP P/L | 16,802,771 | 3.36 |
| 6 | MR ALDO SACCO | 13,000,000 | 2.60 |
| 7 | MR DAVID HANNON | 12,500,000 | 2.50 |
| 8 | RIMOYNE PTY LTD | 11,788,751 | 2.36 |
| 9 | CHIFLEY PORTFOLIOS PTY LTD <DAVID HANNON RET FUND A/C> | 10,000,000 | 2.00 |
| 10 | BENJAMIN KARASIK | 6,298,226 | 1.26 |
| 11 | EUTHENIA TYCHE PTY LTD | 6,013,189 | 1.20 |
| 12 | ANGLO MENDA PTY LTD | 5,000,000 | 1.00 |
| 12 | ISIDORE 14 PTY LTD <GIBSON FAMILY A/C> | 5,000,000 | 1.00 |
| 13 | LANDPATH PTY LTD | 4,982,366 | 1.00 |
| 14 | MISS LINH HOANG TRUC NGUYEN | 4,210,526 | 0.84 |
| 15 | PACIFIC CONTINENTAL HOLDINGS PTY LTD <THE PACIFIC CONTINENTAL A/C> | 4,000,000 | 0.80 |
| 15 | JOJO ENTERPRISES PTY LTD <SFI FAMILY A/C> | 4,000,000 | 0.80 |
| 16 | S3 CONSORTIUM PTY LTD | 3,361,111 | 0.67 |
| 17 | CITICORP NOMINEES PTY LIMITED | 3,305,090 | 0.66 |
| 18 | MR ARTHUR BAYLY BREW | 3,000,000 | 0.60 |
| 19 | MR JINGWEI WANG | 2,909,355 | 0.58 |
| 20 | IBI TRUST MANAGEMENT <ERAN GILBOA A/C> | 2,847,187 | 0.57 |
| | **Total** | **500,500,519** | **100.00%** |

## 8. On Market Purchases

There were no securities purchased on market for the purposes set out in ASX Listing Rule 4.10.22.

# eSENSE-LAB LTD

ARBN 616 228 703

## ANNUAL REPORT FOR YEAR ENDED DECEMBER 31, 2020

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BDO

# 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, 2020, 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, 2020, 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.



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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.

| ***Derivative liabilities*** | ***How the matter was addressed in our audits*** |
|---|---|
| Derivative liability for the year ended December 31, 2020 amounted to USD 809 thousand.<br><br>The related disclosure is in Note 5 to the financial report. | Our procedures in respect of this area included:<br>• We read relevant documents related to the issuance of the warrants.<br>• We evaluated the calculation of the fair value and the report prepared by an independent valuation expert.<br>• We examined the reasonableness of the assumptions and the methodology which were the basis of the calculation.<br>• We verified the inputs data of the calculations by reference to, where appropriate, external data.<br>• 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 2020 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
March 25, 2021

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



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## 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 | - |
| Issued capital | 7 | 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** |

March 25, 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.**

## 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.**

# eSENSE-LAB LTD

ARBN 616 228 703

## 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.**

## 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. 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.

## 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.

## 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.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

**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.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### 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.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

**Research and development costs**

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

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

During the years 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** |

## NOTE 3 – LEASES (CONT.)

**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 |

## NOTE 4 - PROPERTY, PLANT AND EQUIPMENT, NET (CONT.)

| | 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 thousands.

## 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 via an unsecured convertible loan from 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).

## NOTE 5 - FINANCIAL DERIVATIVE (CONT.)

C. On April 14, 2020, the Company completed an AU$250,000 (approx. US$171,000) capital raising via unsecured convertible loans from 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 AU$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 AU$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.

## NOTE 5 - FINANCIAL DERIVATIVE (CONT.)

F. Reconciliation of liabilities arising from financial activities:

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

| | US$ In Thousands Derivative liability |
|---|---|
| **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 unsecured 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 CDIs and 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. As of the reporting date, the CDIs mentioned above were not issued yet, however were valued, together with the warrants, at the date of the transaction 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 - 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 capital 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.

## NOTE 7 - ISSUED CAPITAL (CONT.)

D. On March 19, 2019 3,000,000 Class A performance rights were converted to 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 AU$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.

## NOTE 8 - SHARE BASED COMPENSATION

### A. Share based payments

For share based payments issued, see notes 7.B, 7.C, 7.H and 7.I

### B. Warrants granted to service providers

For Warrants granted as a broker fee, see note 6.B and 7.A.

### C. Performance rights

For performance rights converted to ordinary shares, see note 7.D.

## 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 7.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) |

## NOTE 13 - TAXES ON INCOME

### A. Tax Rate Applicable to Income in Israel

Israeli corporate tax rates are 23% in 2020 and 2019.

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

### B. Net accumulated losses carry forwards

As of December 31, 2020, the Company has estimated carry forward tax losses of approximately US$ 10,500 thousand 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

| | US$ In Thousands | |
|---|---|---|
| | Year ended December 31, 2020 | Year ended December 31, 2019 |
| Loss before taxation | (4,041) | (1,471) |
| Tax credit at applicable statutory rate 2020: 23% (2019: 23%) | 929 | 338 |
| Nondeductible expenses | (2) | (9) |
| Tax losses for which no deferred tax asset is recognized | (927) | (329) |
| Accounting loss | - | - |

## NOTE 14 - RELATED PARTIES AND SHAREHOLDERS

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

**The following transactions arose with related parties**

| | US$ In Thousands | |
|---|---|---|
| **Transaction - expenses** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| Short term salary expenses to CEO | 192 | 167 |
| Fees to directors | 164 | 192 |
| Short term salary expenses to CFO | 94 | 60 |
| Share based compensation to the CEO | 18 | - |

**Liabilities to related parties**

| | | | US$ In Thousands | |
|---|---|---|---|---|
| **Name** | **Nature of transaction** | **Account name** | **December 31, 2020** | **December 31, 2019** |
| Key management personnel | Accrued management fee | Accrued expenses | 10 | 29 |
| CEO | Share based compensation | Other receivables | 6 | - |

## NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

### Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company'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:

| | US$ In Thousands | |
|---|---|---|
| | December 31, 2020 | December 31, 2019 |
| Cash and cash equivalents | 351 | 472 |
| Other receivables | 52 | 8 |
| Total | 403 | 480 |

### 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:

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

**Currency risk (cont.)**

**[In Thousands]**
**Year ended December 31, 2020**

| Assets | NIS | AUD | Total |
|---|---|---|---|
| Cash and cash equivalents | 133 | 211 | 344 |
| Other receivables | 52 | - | 52 |
| | 185 | 211 | 396 |

| Liabilities | NIS | AUD | Total |
|---|---|---|---|
| Trade and other payables | 132 | 182 | 314 |
| Lease liabilities | 61 | - | 61 |
| Financial derivative | - | 809 | 809 |
| Convertible loans | - | 939 | 939 |
| | 193 | 1,930 | 2,123 |
| Net | (8) | (1,719) | (1,727) |

**Year ended December 31, 2019**

| Assets | NIS | AUD | Total |
|---|---|---|---|
| Cash and cash equivalents | 24 | 248 | 272 |
| Other receivables | 8 | - | 8 |
| | 32 | 248 | 280 |

| Liabilities | NIS | AUD | Total |
|---|---|---|---|
| Trade and other payables | 101 | - | 101 |
| Lease liabilities | 43 | - | 43 |
| Financial derivative | - | 86 | 86 |
| | 144 | 86 | 230 |
| Net | (112) | 162 | 50 |

## NOTE 15 - 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, 2020 | Year ended December 31, 2019 |
|---|---|---|
| **Linked to NIS [(in thousands)]** | 22 | (112) |
| | 10% | 10% |
| | 2 | (11) |
| **Linked to AUD [(in thousands)]** | (1,782) | 162 |
| | 10% | 10% |
| | (178) | 16 |

**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.

**US$ in Thousands**

| At December 31, 2020 | up to 1 year | Between 1 and 2 year | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Trade payables | 429 | - | - | - |
| **Total** | **429** | - | - | - |

| At December 31, 2019 | up to 1 year | Between 1 and 2 year | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Trade payables | 126 | - | - | - |
| **Total** | **126** | - | - | - |

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

### Capital risk

The Company seeks to maintain a capital structure which enables it to continue as a going concern and which supports its business strategy. The Company's capital is provided by various forms of equity raisings. The Company manages its capital structure through raising funds from shareholders and other investors. At the balance sheet date, the Company has net cash and cash equivalents of US$351,000.

### Fair value of financial liabilities

Items carried at fair value as of December 31, 2020 and 2019 are classified in the table below:

| | US$ In Thousands | | | |
|---|---|---|---|---|
| | Fair value measurements using input type | | | |
| | December 31, 2020 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Financial derivative | - | (809) | - | (809) |

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

## NOTE 16 - SIGNIFICANT EVENTS AND EVENTS AFTER THE REPORTING PERIOD

In addition to matters disclosed elsewhere in this report, the following significant events and events after the reporting period occurred:

### Joint Venture agreements

1. During May 2020, the Company entered into a term sheet to establish a Joint Venture agreement ("**JV**") with West Australian wine maker and distiller, Sassey Pty Ltd (the owner of the Wise Winery) ("**Wise**"). Under the agreement, the Company agreed to provide its proprietary terpene mixes to the JV, specifically chosen for their anti-viral qualities, and a cash contribution of up to AU$200,000 for JV operational expenses, and Wise agreed to contribute up to AU$200,000 of sanitiser ingredients (base alcohol sanitiser and packaging) to the JV. Wise also agreed to contract manufacture the terpenes infused sanitiser products on behalf of the JV. The JV company will be owned 50% by the Company and 50% by Wise.

## NOTE 16 - SIGNIFICANT EVENTS AND EVENTS AFTER THE REPORTING PERIOD (CONT.)

**Joint Venture agreements (cont.)**

At the signing date, The term sheet remains subject to certain material conditions precedent that were not completed.

2. During May 2020, the Company signed a Letter of Intent with SeaLaria Ltd, an Israeli private marine-biotechnology company, for a joint venture to develop new products based on the synergistic effect of eSense's terpene strains, and SeaLaria's unique gelatinised red algae. Refer to the Directors' Report for a summary of the current status of this JV.
3. During June 2020, the Company entered into a term sheet to establish a Joint Venture agreement ("**JV**") with ANC Enterprises Pty Ltd ("**ANC**"), a manufacturer and wholesaler of high-quality Australian-made cosmeceutical products. Under the agreement, the Company will provide specific terpenes uniquely developed for each product category, and ANC will manufacture the resulting products.

   The JV company will be owned 95% by the Company and 5% by ANC, based on an initial cash contribution to the JV of AU$95,000 by the Company and AU$5,000 by ANC. ANC shall have a 12-month option to increase its holding to 50% through an additional capital contribution. Refer to the Directors' Report for a summary of the current status of this JV.

   At the date of this report, the term sheet remains subject to certain material conditions precedent that have not yet been completed.
4. As announced on 30 October 2020, the Company has been working with Israeli company, BetterAir (which specialises in the development of microbiome based anti-bacterial technology for surface and atmosphere sanitising), to test the Company's terpenes for co-existence with BetterAir's bacteria. Refer to the Directors' Report for a summary of the current status of this venture.

**Distribution/Sales/Research Agreements**

1. As announced on 29 April 2020, following a commercialisation review of the Company's product suite and distribuion agreements, the Company noted concern regarding its ability to see the E-Quits and VaporSpec distribution agreements materialising into meaningful revenue, due to the changing landscape of the vaping and e-smoke industry. As such, these previously announced deals were deemed practically redundant.
2. In July 2020, the Company entered into an exclusive sales agency agreement with US based Blue Science Solutions LLC ("**Blue Science**"), which marked the beginning of its expansion plans into the world's largest consumer base for its future terpenes based sanitiser products, the United States. The Company has agreed to issue to Blue Science (or its nominees) 10,000,000 CDIs in the capital of the Company at a deemed issue price of AU$0.01 each, in return for Blue Science agreeing to distribute the Company's products through its networks. As at the reporting date, the CDIs mentioned above are not yet issued. pSee notes 7.J.

## NOTE 16 - SIGNIFICANT EVENTS AND EVENTS AFTER THE REPORTING PERIOD (CONT.)

**Distribution/Sales/Research Agreements (cont.)**

3. As announced on 31 August 2020, eSense signed a research agreement with the Israeli Ministry of Health ("MOH") to commence a research project at the Central Virology lab located in the Chaim Sheba Medical Centre, the largest hospital in Israel, to test its proprietary TRP-ENV compound. The aim of the research project was to test TRP-ENV's efficacy against human coronavirus strain termed OC43, that will be used as a model for SARS COV2, and will provide further research into terpenes' anti-viral qualities to reduce the ethanol content in sanitisers.

**Voluntary Suspension**

1. The Company's securities were suspended from trading on 27 July 2020 until the appointment by Shareholders of two External Directors at a general meeting of the Company ("**General Meeting**"), and pending the response by the Company to certain queries from ASX. The Company is continuing to participate in ongoing dialogue with the ASX, and is endeavouring to respond to its queries as efficiently as possible.
2. As disclosed previously, having regard to independent legal advice received by the Company to date, the Company does not consider the matters identified (including in respect of Board composition) to have the effect of invalidating any material actions or decisions of the Board, nor any material transactions undertaken by the Company during any periods of non-compliance. Further, to the extent that these matters require rectification, that rectification can be lawfully achieved by either ratification by shareholders at a general meeting to be convened as soon as practicable, or ratification by a compliant and appropriately composed Board, Audit Committee or Remuneration Committee.
3. In respect of the appointment of External Directors, as announced on 4 December 2020, the Company has now identified two candidates which it proposes to put forward to shareholders for consideration and appointment as External Directors, being Ms Maayan Bar and Ms Deborah Gilmour.
4. The appointments of Ms Bar and Ms Gilmour are subject to shareholder approval, with further information to be set out in a Notice of Meeting which will be sent to shareholders in due course.

**Board and Management Changes**

1. On 13 January 2020, the Company appointed Dr James Ellingford as Non-Executive Chairman of the Company.
2. On 28 January 2020, Mr Haim Cohen resigned from his position as Chief Executive Officer of the Company, and Mr Piers Lewis assumed the role of interim Chief Executive Officer following the conclusion of Mr Cohen's notice period.
3. On 9 March 2020, the Company appointed Mr Itzik Mizrahi as Chief Executive Officer of the Company.

## NOTE 16 - SIGNIFICANT EVENTS AND EVENTS AFTER THE REPORTING PERIOD (CONT.)

**Board and Management Changes (cont.)**

4. Mr Michael Edwards resigned as a Non-Executive Director of the Company on 27 March 2020.
5. Mr Amit Edri resigned as a Non-Executive Director of the Company on 8 June 2020.
6. On 2 July 2020, the Company appointed Mr Peter Hatfull as a Non-Executive Director of the Company, and Mr Piers Lewis resigned as a Non-Executive Director of the Company.
7. On 31 July 2020, the Company appointed Mr Winton Willesee as a Non-Executive Director of the Company.
8. Mr Benjamin Karasik resigned as a Non-Executive Director of the Company on 31 October 2020.
9. On 4 December 2020, the Company appointed Mr Yoav Elishoov as Global Chief Executive Officer of the Company, with Country Chief Executive Officer Mr Itzik Mizrahi, departing the Company at the end of February 2021.

**MOH Research Results**

1. As announced on 27 November 2020, the Company received results from testing of its two proprietary blend terpene profiles, TRP-ENV and TRP-COV for anti-viral activity against HCov-OC43 corona strain virus. Results showed that certain formulas containing eSense's proprietary terpene blends are effective at neutralising HCoV-OC43 viruses, showing a significant log reduction in viral copy numbers with a neutralization efficiency at least as good as 70% ethanol. Based on these results, eSense-Lab plans to realise the Letter of Intent with SeaLaria, with the intention to commercialise an alcohol-free sanitiser comprising TRP-ENV and SeaLaria's red algae.
2. As announced on 17 February 2021, further testing of eSense's proprietary blend terpene profile, TRP-ENV, was undertaken to determine anti-viral activity against HCoV-OC43 corona strain virus when combined with lower levels of ethanol than had previously been tested. Results of the TRP-ENV combination and reduced levels of ethanol demonstrated an immediate neutralisation of HCov-OC43, that was at least as effective as 70% ethanol. Testing of TRP-BIO, a unique terpene combination customised for co-existence with BetterAir's bacteria, also yielded a mild anti-viral activity.

**Capital Raising**

The Company undertook a number of capital raising initiatives during the period, as set out in this Report in Notes 5 and 6.