

**ESENSE LAB LTD.**

**FINANCIAL STATEMENTS**  
**AS OF SEPTEMBER 30, 2016**

**ESENSE LAB LTD.**

**FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2016**

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The amounts are stated in U.S dollars

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**REPORT OF INDEPENDENT AUDITORS**  
**To the Shareholders of**  
**Esense Lab Ltd.**

We have audited the accompanying financial position of Esense Lab Ltd. (the "Company") as of September 30, 2016, and the related statement of comprehensive income, changes in shareholders' equity and cash flow for the period from April 13, 2016 (inception) to September 30, 2016. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial Statements based on our audit.

We conducted our audit in accordance with international standard of auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial Statements presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2016, and the results of its operations, changes in shareholders' equity and cash flow for the period from April 13, 2016 (inception) to September 30, 2016, in conformity with International Financial Reporting Standards (IFRS).

Tel-Aviv, Israel  
November 14, 2016

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



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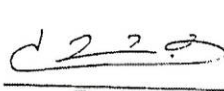
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**ESENSE LAB LTD.**  
**FINANCIAL POSITION**

	<u>Note</u>	<u>September 30, 2016</u> <u>\$ in thousands</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Other accounts receivable		<u>1</u>
<b>Total current assets</b>		<u>1</u>
<b>PROPERTY AND EQUIPMENT, NET</b>		<u>1</u>
<b>TOTAL ASSETS</b>		<u>2</u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Other accounts payable		<u>214</u>
<b>Total current liabilities</b>		<u>214</u>
<b>EQUITY:</b>	3	
Share capital		14
Additional paid-in capital		12
Accumulated deficit		<u>(238)</u>
<b>Total equity</b>		<u>(212)</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>2</u>

November 14, 2016  
Date of approval of the  
financial statements

  
Eran Gilboa  
Director

  
Haim Cohen  
CEO

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

**ESENSE LAB LTD.**

**STATEMENT OF COMPREHENSIVE INCOME**

		Period from April 13, 2016 (inception) to September 31, 2016
	Note	<u>\$ in thousands</u>
<b>Operating expenses:</b>		
Research and development	4	189
General and administrative expenses	5	<u>49</u>
<b>Operating loss</b>		<u>238</u>
Other comprehensive loss		<u>*</u>
<b>Total comprehensive loss for the period</b>		<u><u>238</u></u>

\* Less than \$1 thousand.

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

**ESENSE LAB LTD.**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	\$ in thousands (except share data)				
	Ordinary shares		Additional paid-in capital	Accumulated deficit	Total equity
	Number	Amount			
<b>Balance at April 13, 2016 (Inception)</b>	-	-	-	-	-
<b>Changes during the period:</b>					
Issuance of shares	5,338,333	14	12	-	26
Total comprehensive loss	-	-		(238)	(238)
<b>Balance as of September 30, 2016</b>	<u>5,338,333</u>	<u>14</u>	<u>12</u>	<u>(238)</u>	<u>(212)</u>

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

**ESENSE LAB LTD.**

**STATEMENT OF CASH FLOWS**

**Period from April  
13, 2016 to  
September 30, 2016**  
\$ in thousands

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss for the period	(238)
Adjustments to reconcile net loss to net cash Used in operating activities:	
Increase in other accounts receivable	(1)
Increase in other accounts payable	214
<b>Net cash used in operating activities</b>	<u>(25)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of property, plant and equipment	(1)
<b>Net cash used in investing activities</b>	<u>(1)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Issuance of shares	26
<b>Net cash provided by financing activities</b>	<u>26</u>

<b>Increase in cash and cash equivalents</b>	-
<b>Cash and cash equivalents at inception</b>	-
<b>Cash and cash equivalents at the end of the period</b>	<u>-</u>

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



## **ESENSE LAB LTD.**

### **NOTES TO FINANCIAL STATEMENTS ( \$ in thousands )**

#### **NOTE 1 - DESCRIPTION OF BUSINESS:**

##### **A. Overview:**

Esense Lab Ltd. (the "Company") was incorporated on April 13, 2016 under the Israeli law.

The Company is a technology and research and development company headquartered in Israel, 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.

To achieve this goal, the Company uses cutting-edge technologies and a multi-disciplinary team of leading Israeli researchers to create an alternative to the targeted plants themselves (initially cannabis) by the de-formulation of the targeted plant, and reformulation of the phytochemical profiles of that targeted plant from other natural sources.

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

##### **B. Customer agreement:**

In September, 2016, the Company entered into a sale agreement with a new customer, according to which the customer will pay to the Company a total amount of \$470 thousand.



## **ESENSE LAB LTD.**

### **NOTES TO FINANCIAL STATEMENTS** **( \$ in thousands )**

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

The significant accounting policies followed in the preparation of the financial statement, 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. The Company has elected to present the statements of comprehensive income using the function of expense method.

##### **Estimates and assumptions**

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

##### **Foreign currency**

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

Accordingly, transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the balance sheet 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 balance sheet items i.e. at the time of the transaction. Exchange gains and losses from the aforementioned conversion are recognized in the statement of comprehensive income.

##### **Cash and 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.

**ESENSE LAB LTD.**

**NOTES TO FINANCIAL STATEMENTS**  
**( \$ in thousands )**

**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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**Classification of financial instruments by fair value hierarchy**

The financial instruments 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).

**Research and development costs:**

Expenditure on research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. As of the balance sheet date the Company has yet to reach the stage of capitalization.



**ESENSE LAB LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**( \$ in thousands )**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**Financial assets**

The Company classifies its financial assets depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Cash: This asset is carried out based on quoted prices.

Other accounts receivables: receivables are investments with fixed or determinable payments that are not quoted in an active market and they are initially recognized at fair value plus directly attributable transaction costs. After initial recognition, other accounts receivables are measured based on their terms at amortized cost plus directly attributable transaction costs using the effective interest method and less any impairment losses.

**Financial Liabilities**

The Company financial liabilities are mostly trade payables and other short-term monetary liabilities, which are initially recognized at Fair value and subsequently measured at amortized cost using the effective interest rate method.

**Deferred tax**

Deferred taxes are computed in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts attributable for tax purposes. Deferred taxes are recognized in other comprehensive income or directly in equity if the tax relates to those items.

Deferred taxes are measured at the tax rates that are expected to apply in the period when the temporary differences are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or directly in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. In addition, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability is probable. Any resulting reduction or reversal is recognized on "income tax" within the statement of comprehensive income. Taxes that would apply in the event of the disposal of investments in investees have not been taken into account, as long as the disposal of such investments is not expected in the foreseeable future and the Company has control over such disposal. In addition, deferred taxes that would apply in the event of distribution of dividends have not been taken into account, since the distribution of dividends does not involve an additional tax liability, and if so, the Company's policy is not to initiate distribution of dividends that triggers an additional tax liability. All deferred tax assets and liabilities are presented in the statement of financial position as non-current items, respectively. Deferred taxes are

NOTES TO FINANCIAL STATEMENTS  
( \$ in thousands )

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**Deferred tax (Cont.):**

offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

**New IFRSs in the period prior to their adoption**

IFRS 9 Financial Instruments:

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

According to IFRS 9, the provisions of IAS 39 will continue to apply to de-recognition and to financial liabilities for which the fair value option has not been elected.

According to IFRS 9, changes in fair value s of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss. IFRS 9 also prescribes new hedge accounting requirements.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company is evaluating the possible impact of IFRS 9 but does not anticipate having a material impact on the consolidated financial statements.

**ESENSE LAB LTD.**

**NOTES TO FINANCIAL STATEMENTS**

( \$ in thousands )

**NOTE 3 - EQUITY:**

The ordinary shares confer upon their holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if and when declared.

	<b>Number of shares as of September 30, 2016</b>	
	<b>Authorized</b>	<b>Issued and outstanding</b>
Ordinary shares of NIS 0.01 par value	200,000,000	5,338,333

A. At inception, the Company issued 5,338,333 ordinary shares par value of 0.01 NIS per share for a total amount of \$26 thousand approximately.

**NOTE 4 – RESEARCH AND DEVELOPMENT:**

	<b>Period from April 13 (inception) to September 30, 2016</b>
Payroll and related	105
Raw materials	40
Equipment	32
Other	12
<b>Total</b>	<b>189</b>

**NOTE 5 – GENERAL AND ADMINISTRATIVE EXPENSES:**

	<b>Period from April 13 (inception) to September 30, 2016</b>
Payroll and related	24
Professional services	13
Travel expenses	5
Consulting fees	4
Other	3
<b>Total</b>	<b>49</b>



**ESENSE LAB LTD.**

**NOTES TO FINANCIAL STATEMENTS**  
**( \$ in thousands )**

**NOTE 5 - TAXES ON INCOME:**

**A. Tax Rate Applicable to Income in Israel:**

The tax rates that apply to the Company are as follows: in 2016 – 25%.

On January 5, 2016, the Israeli government published a law to amend the Income Tax Ordinance (No. 216) - 2016. According to the new law, there will be a decrease of corporation tax by 1.5% from 2016 onwards. Hence, there will be a decrease in the tax rate from 26.5% to 25%.

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

**NOTE 6 - SUBSEQUENTS EVENTS:**

**A. Share Option Plan:**

On October 13, 2016, the Board of Directors approved a Share Option Plan (the "Plan"). Under Plan, 580,000 options for ordinary shares may be granted to employees, directors and consultants of the Company with an exercise price of 0.01 NIS.

**B. Convertible loan:**

In October, 2016, the Company signed a Convertible Loan Agreement (the "Agreement") with a number of investors (the "Lenders"), in which the Company borrowed a total amount of AUD 750 thousand. Upon certain terms as set forth in the agreement, the lenders will be repaid or entitled to convert the loan into the Company's shares at a price per share as of \$0.1 AUD in case of an initial public offer. As of the audit report date the Company borrowed AUD 735 thousand.

If the Company will not complete the initial public offer or back door listing on the ASX by January 1, 2017, the Company may, at the Company's election pay the lenders a 120% premium of the outstanding amount without interest. The lenders do not have any right to elect to redeem the loan.

**C. Production Level:**

In November, 2016, the company has signed on a memorandum of understanding with the one of the leader manufacturing company in Israel for the production process.