

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD APRIL 13, 2016 - DECEMBER 31, 2016

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

TABLE OF CONTENTS

	Page
Corporate Directory	1
Chairman's Report	2
Directors Report	3
Financial Statements	10
Corporate Governance Statement	35
ASX Additional Information	36

The amounts are stated in U.S dollars

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

CORPORATE DIRECTORY

Directors

Dr Brendan de Kauwe
Mr Haim Cohen
Mr Eran Gilboa
Mr Ilan Saad
Ms Galit Assaf
Mr Quentin Megson

Company Secretary

Mr Steven Wood

Principal Office

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

Registered Office Australia

C/- Otsana Capital
108 Outram Street
West Perth WA 6005

ASX Code

ESE

Auditor

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

Australian Legal Advisor

Bellanhouse Legal, Ground Floor
11 Ventnor Avenue West Perth WA 6005

Israeli Legal Advisor

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

Share Registry

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

Website

esense-lab.com

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

CHAIRMAN'S LETTER

Dear Shareholder,

It is with great pleasure on behalf of the Board of eSense-Lab Ltd, to present our 2017 Annual Report.

eSense-Lab Ltd (eSense) has the honour of being the first Israeli Incorporated Company to list on the Australian Stock Exchange (ASX), on 14 February 2017, following a successful IPO capital raising.

eSense is a life sciences company specialising in the commercialisation of the phytochemical profiling of plants. Our technology combines genetics, mRNA, protein expression and phytochemical profiles to generate a comprehensive model of rare or high value plants. We can then use this model to 'reverse engineer' a terpene profile, which is a naturally occurring formulation of different individual terpenes which together account for many of the plant's health and medical benefits, whilst also exactly replicating the flavour, fragrance and other desired characteristics of the targeted plant, at a more sustainable and cheaper cost.

In our short time as a listed entity, eSense has achieved a number of significant technological milestones, including significant technology advancements for its yield and detection capabilities, which are now capable of achieving greater than 30% higher terpene counts over previous extraction methodologies; as well as the advancement in detection methods now achieving 10-100 multiples higher resolution in detection and quantification of terpenes over its previous capabilities.

These technological advancements now translate to a significant net reduction in the underlying production costs of our terpene profiles, in which we have 10 commercial ready medical cannabis terpene profiles, including 5 of the world's most popular medical cannabis strains.

eSense is now accelerating the commercialisation of our technology and current products. Our unique and diverse methods allow us to create a broad spectrum plant profiles of varying grades and concentrations, and tailored to the specific requirements of the client customer requirements, as well as our desired end product, which can range from lower cost 'fragrance' and 'flavour' grades for the broader 'additives' market, through to higher cost and quality 'pharmaceutical' grades for medical markets.

As outlined in our IPO Prospectus, eSense is in the process of fulfilling our first commercial order for Allor Vaporizers, a US electronic vaporizer company, for the supply of e-liquids comprising our reconstructed cannabis terpene profiles. We aim to expand on such relationships and global territories, as well as firm up further expressions of interest received to date in our unique products.

Since listing, eSense has sufficient funding to further refine our technology, expand on our underlying commercial ready profiles, and aggressively and cost effectively bring our products to the global market place.

We have a very experienced Management and Scientific team, headed by Haim Cohen, our Chief Executive Officer, and by Dr Yaron Penn, our Chief Technology Officer. Together, they lead our scientific team and highly experienced executive group, who are all driven by the same desire to bring the many years of specialist research and development behind our innovative, unique and disruptive plant profiles to commercialisation.

On behalf of our Board, I would like to thank you, our shareholders, for your support during the IPO process, and to our management and scientific personnel for bringing eSense to the exciting position we find the Company in today, and I look forward to a dynamic and successful year ahead for us all.



Dr Brendan de Kauwe
Non-executive Chairman

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

DIRECTORS REPORT

Your Directors present their report, together with the financial statements of eSense-Lab Limited (formerly Interplabs Limited) for the period of incorporation dated from 13 April 2016 to 31 December 2016.

Board of Directors

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

Name	Status	Appointed	Resigned
Dr Brendan de Kauwe	Chairman	Appointed 1 October 2016	-
Mr Haim Cohen	CEO and Executive Director	Appointed 1 October 2016	-
Mr Eran Gilboa	Non-Executive Director	Appointed 19 September 2016	-
Mr Ilan Saad	Non-Executive Director	Appointed 1 October 2016	-
Ms Galit Assaf	Non-Executive Director	Appointed 5 December 2016	-
Mr Quentin Megson	Non-Executive Director	Appointed 5 December 2016	-
Mr Benjamin Karasik	Non-Executive Director	Appointed 13 April 2016	Resigned 19 September 2016

Company Secretary

Mr Steven Wood was appointed as the Company Secretary on 5 October 2016.

Principal Activity

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

Dividends Paid or Recommended

There were no dividends paid or recommended during the financial year ended 31 December 2016 (2015: Nil).

Review of Operations

eSense-Lab Ltd had a loss of (\$3,656 thousand) for the period from 13 April 2016 (inception date) to 31 December 2016 and a net liability position of (\$1,066 thousands) for the period ended 31 December 2016.

Significant Changes in the State of Affairs

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

- On 13 April 2016, the Company was incorporated in Israel and under Israeli Companies Law. At the inception date, the Company had 5,338,334 fully paid ordinary shares on issue.
- On 14 October 2016, the Company signed a Convertible Loan Agreement which allowed the Company to borrow up to AUD\$1,000,000 (USD\$733,000 at an exchange rate of AUD\$1: USD\$0.7325) interest free. At 31 December 2016, the Company had borrowed \$970,000 under this agreement. The Agreement stated that the loan will convert to eSense-Lab CDIs at \$A0.10 per CDI post successful IPO.
- In November 2016, the board of directors approved a share incentive plan to issue 1,110,689 options to directors and employees. During the period ended 31 December 2016, 472,000 options were exercised at an exercise price of 0.01 New Israel Shekel (NIS) (A\$0.0035 at an exchange rate of 1NIS)
- On 24 November 2016, the board of directors approved the share split (1:4.913827) which resulted in the number of shares increasing from 5,810,334 to 34,361,310.
- On 1 December 2016, the Company was successfully registered with ASIC as a Foreign Company.
- On 5 December 2016, the Shareholders approved the issue of 36,000,000 Performance Rights and 5,000,000 Advisor Options.

No other significant changes in the nature of the Company's activities have occurred during the period.

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

Information on Directors

Dr Brendan de Kauwe Chairman and Non-Executive Director

Qualifications Bachelor of Science in Pharmacology and Physiology, Bachelor of Dental Surgery, Post Graduate Diploma in Applied Finance

Experience Dr de Kauwe is a Director of Otsana Capital, a corporate advisory firm, with vast experience in corporate restructuring and recapitalisations, mergers and acquisitions, IPO/RTO and capital markets. Dr de Kauwe's corporate experience, coupled with his extensive technology, science and bio-medical background gives him an integral understanding in the evaluation and execution of projects and assets over a diverse range of sectors.

Dr de Kauwe has held numerous roles within ASX-listed companies, particularly in the Life Sciences and Technology sectors.

Interest in Shares and Options at the date of this report 1,453,157 CDIs
500,000 Class A Performance Rights
500,000 Class B Performance Rights
991,407 Class C Performance Rights
991,407 Class D Performance Rights

Directorships held in other listed entities (last 3 years) Actinogen Limited (ACW) from 23 September 2013 to 18 December 2014
Xped Limited (XPE) from 22 May 2015 to 23 March 2016
Prescient Therapeutics Limited (PTX) from 30 August 2013 to 28 November 2014
Race Oncology Limited (RAC) from 1 July 2016 to Current
Ookami Limited (OOK) from 5 June 2015 to Current

Mr Haim Cohen Chief Executive Officer and Executive Director

Qualifications Bachelors in Social Science

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

Interest in Shares and Options at the date of this report 1,123,627 CDIs
500,000 Class A Performance Rights
500,000 Class B Performance Rights
766,586 Class C Performance Rights
766,586 Class D Performance Rights

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

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

Information on Directors

Mr Eran Gilboa Non-executive Director

Qualifications Bachelors in Economics and Management, specialising in finance and is a CPA

Experience Mr Gilboa has vast experience as the Chief Financial Officer for global companies in the fields of hi-tech, real estate, finance and media. As a result of serving as the Chief Financial Officer, Mr Gilboa gained a wide background in capital offerings, working with venture capital firms and various boards of directors. Mr Gilboa also played a crucial role in various mergers and acquisitions of international companies, where he led the intricate financial and tax processes. Mr Gilboa was responsible for private and public companies in his role as Senior Accountant at Ernst & Young.

Interest in Shares and Options at the date of this report 2,847,188 CDIs
500,000 Class A Performance Rights
500,000 Class B Performance Rights
1,942,471 Class C Performance Rights
1,942,471 Class D Performance Rights

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

Mr Ilan Saad Non-Executive Director

Qualifications Bachelor of Economics and Management

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

Interest in Shares and Options at the date of this report 153,760 CDIs
500,000 Class A Performance Rights
500,000 Class B Performance Rights
104,901 Class C Performance Rights
104,901 Class D Performance Rights

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

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

Information on Directors

Ms Galit Assaf Non-Executive Director

Qualifications M.A. in Public Policy, M.A. and B.A. in each of Economics and Business Administration

Experience Ms Assaf has extensive experience in managerial and directorship roles within Israeli companies and government. Ms Assaf is currently the Director of global bank transfers with Payoneer, an online payment services company. Ms Assaf is also currently a director and member of the audit and finance committee of Zur Shamir Holdings Ltd., an Israel-based company engaged in finance, insurance and real estate. Ms Assaf has also held the position of chief financial officer (as well as acting chief executive officer and deputy chief executive officer) and chair of the finance committee of the NTA – Metropolitan Mass Transit System, a government owned organisation with the responsibility of designing, building and financing the Israeli mass transit systems for the Tel Aviv area. Ms Assaf has also held the position of chair of the finance committee for the Port of Hadera, and has been on the board of the Jerusalem Development Authority, and a member of the audit committee for KANAT – Insurance Fund for Natural Risks in Agriculture.

Interest in Shares and Nil CDIs

Options at the date of this report 500,000 Class A Performance Rights
500,000 Class B Performance Rights

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

Mr Quentin Megson Non-Executive Director

Qualifications Bachelor of Commerce and Chartered Accountant

Experience Mr Megson has 25 years' experience in the finance and management sector in Australia. His initial role was as a tax advisor for a major accounting firm before moving to a medium tier accounting firm as a partner. Since 2005, Mr Megson has held various roles with ASX-listed company TFS Corporation Ltd (ASX:TFC), which is involved in the establishment of sandalwood plantations and the processing of the wood to the end product. Mr Megson's role with TFS have included chief financial officer, company secretary and general manager of communications and human relations. Mr Megson is currently the general manager of operations and corporate services of TFS.

Interest in Shares and Nil CDIs

Options at the date of this report 500,000 Class A Performance Rights
500,000 Class B Performance Rights

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

Information on Company Secretary

Mr Steve Wood Company Secretary

Qualification Bachelor of Commerce and Chartered Accountant

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

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

Meeting of Directors

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

	DIRECTORS' MEETINGS	
	Number eligible to attend	Number Attended
Brendan de Kauwe	-	-
Haim Cohen	-	-
Ilan Saad	-	-
Eran Gilboa	-	-
Galit Assaf	-	-
Quentin Megson	-	-

State of Incorporation

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

Options

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

Grant Date	Expiry Date	Exercise Price	Number under option
24 November 2016	7 February 2020	NIS\$0.01	638,689
5 December 2016	7 February 2020	\$0.25	5,000,000
Total			5,638,689

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity. During the period from 13 April 2016 to 31 December 2016, 472,000 options were exercised. (2015: Nil).

Performance Rights

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

Grant Date	Performance Right	Expiry Date	Number of rights issued
5 December 2016	Class A	19 January 2022	3,000,000
5 December 2016	Class B	19 January 2022	3,000,000
5 December 2016	Class C	19 January 2022	15,000,000
5 December 2016	Class D	19 January 2022	15,000,000
Total			36,000,000

On achievement of Class C Performance Rights Milestones, 10,111,311 Class E Performance Rights will be issued.

On achievement of Class D Performance Rights Milestones, 10,111,311 Class F Performance Rights will be issued.

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

Class	Milestone
Class A Performance Rights	If the volume weighted average market price of Shares calculated over the 20 consecutive trading days on which trades of Shares were recorded on ASX is A\$0.40 or higher.
Class B Performance Rights	If the volume weighted average market price of Shares calculated over the 20 consecutive trading days on which trades of Shares were recorded on ASX is A\$0.60 or higher.
Class C Performance Rights	If the Company signs binding distribution contracts for its reconstructed Terpene Profiles with a cumulative value of A\$1 million within 12 months from the date of Admission.
Class D Performance Rights	If the Company generates cumulative revenue from the application of the Company's intellectual property and technology relating to the analysis and reconstruction of Terpene Profiles of A\$3 million within 24 months from the date of Admission.

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

Proceedings on behalf of Company

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

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

Indemnifying Officers

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

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

Insurance premiums

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

Environmental Regulations

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

Future Developments, Prospects and Business Strategies

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

Indemnification of auditors

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

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

Non-audit Services

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

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

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

Corporations Act 2001

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

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

Subsequent Events

On 10 February 2017, the Company was admitted to the official list on the Australian Securities Exchange (ASX), with trading commencing on 14 February 2017, after the Company raised \$3.5 million through the issue of 17,500,000 Chess Depository Interests (CDIs) at \$0.20.

The convertible loan of \$1,000,000 converted to 10,000,000 CDIs, being at price of \$0.10, a 50% discount to \$0.20 share price under the IPO capital raise.

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



Brendan de Kauwe
Non-executive Chairman

Perth, Western Australia, 28 April 2017

eSENSE-LAB LTD

ARBN 616 228 703

**FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO
DECEMBER 31, 2016**

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENT TABLE OF CONTENTS

	Page
Independent Auditors' Report	12
Statement of Financial Position	13
Statement of Comprehensive Income	14
Statement of Changes in Shareholders' deficit	15
Statement of Cash Flows	16
Notes to Financial Statements	17-34

The amounts are stated in U.S dollars

INDEPENDENT AUDITORS' REPORT
To the Shareholders of
ESENSE LAB LTD.

We have audited the accompanying statements of financial position of eSENSE-LAB Ltd. (the "Company") as of December 31, 2016, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the period from April 13, 2016 (Inception) to December 31, 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 management and Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides 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 December 31, 2016, and the results of its operations, changes in shareholders' equity and their cash flows for the period from April 13, 2016 (Inception) to December 31, 2016, in conformity with International Financial Reporting Standards (IFRS).

Tel-Aviv, Israel

February 28, 2017

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



Tel Aviv
+972-3-6386868

Jerusalem
+972-2-6546200

Haifa
+972-4-8680600

Beer Sheva
+972-77-7784100

Bene Berak
+972-73-7145300

Kiryat Shmona
+972-77-5054906

Petach Tikva
+972-77-7784180

Modiin Ilit
+972-8-5944111

Head Office Amot Bituach House 48 Derech Menachem Begin Rd. Tel Aviv 6618001 **Email** Bdo@bdo.co.il **Our Site** www.bdo.co.il

BDO Israel, in its sole partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2016
		<u>\$ in thousands</u>
Current Assets		
Cash and cash equivalents		477
Other receivables	3	<u>191</u>
Total Current Assets		<u>668</u>
Non-Current Assets		
Property and equipment, net		<u>4</u>
Total Non-Current Assets		<u>4</u>
Total Assets		<u>672</u>
Current Liabilities		
Trade and other payables		337
Convertible loan	4	<u>1,401</u>
Total Current Liabilities		<u>1,738</u>
Deficit		
Issued capital	5	439
Reserves	7	2,151
Accumulated deficit		<u>(3,656)</u>
Total Deficit		<u>(1,066)</u>
Total Liabilities and Deficit		<u>672</u>

February 28, 2017

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

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

STATEMENT OF COMPREHENSIVE INCOME

	Note	Period from April 13, 2016 (inception) to December 31, 2016
		<u>\$ in thousands</u>
Operating Expenses		
Research and development expenses	8	258
General and administrative expenses	9	309
Share based payments expenses	6	<u>2,403</u>
Operating loss		2,970
Financial expenses		<u>686</u>
Total comprehensive loss for the period		<u>3,656</u>
Basic and diluted loss per share	10	<u>\$ (0.11)</u>

The accompanying notes are an integral part of the financial statements

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

	<u>Issued capital</u>	<u>Reserves</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>\$ in thousands</u>			
Balance at April 13, 2016 (Inception)				
Issuance of shares	26	-	-	26
Share based payments	-	2,564	-	2,564
Exercise of employee stock options	413	(413)	-	-
Total comprehensive loss for the period	-	-	(3,656)	(3,656)
Balance at December 31, 2016	439	2,151	(3,656)	(1,066)

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

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

STATEMENT OF CASH FLOWS

	Period from April 13, 2016 (Inception) to December 31, 2016
	<u>\$ in thousands</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss for the period	(3,656)
Adjustments to reconcile net loss to net cash: Used in operating activities:	
Increase in other receivables	(25)
Increase in trade and other payables	337
Change in fair value of convertible loan	674
Share based payments	2,403
Net cash used in operating activities	<u>(267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(4)
Restricted cash	(5)
Net cash used in investing activities	<u>(9)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of shares upon inception	26
Convertible loan	727
Net cash provided by financing activities	<u>753</u>
Increase in cash and cash equivalents	477
Cash and cash equivalents at inception	-
Cash and cash equivalents at the end of the period	<u>477</u>
APPENDIX A - NON CASH ACTIVITIES:	
Prepaid issuance costs	<u>161</u>

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

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE 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.

B. Listing on Australian Securities Exchange (ASX):

On February 10, 2017 eSENSE-LAB LTD ("ESE") was admitted to the official list on the Australia Securities Exchange ("ASX"), with trading commencing on the February 14, 2017, after the Company raised AUD 3.5 million via the issue of 17,500,000 Chess Depositary Interest ("CDI"), financial product which is a unit of beneficial ownership in an underlying financial product which is quoted on the ASX market, at AUD 0.20 per CDI (see also Note 14).

eSENSE-LAB LTD

ABDN 616 228 708

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016 NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 1 - DESCRIPTION OF BUSINESS (CONT.):

C. Material customer agreement:

On September 2016, the Company entered into Terms and Conditions of Sale with Allor Vaporizers (the "Customer"), an electronic vaporizer company based out of South Florida, United States.

The Company has been provided with a purchase order from the Customer pursuant to which the Customer has ordered 470 worth of the Company's cannabis Terpene Profiles. Although the purchase order does not specify an "end date" by which the order must be satisfied, its intention is to satisfy the order in April 2017.

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 except for: convertible loan which is measured at fair value. The Company has elected to present the statements of comprehensive income using the function of expense method.

Estimates and assumptions

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

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 currency 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").

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Accordingly, transactions and balances have been converted as follows:

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

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 market 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.

eSENSE-LAB LTD

ABN 616 228 708

**FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016
NOTES TO THE FINANCIAL STATEMENTS**

(\$ in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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).

Items carried at fair value as of December 31, 2016 are classified in the table below in one of the three categories as described above.

	Fair value measurements using input type			
	December 31, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Convertible loan	-	(1,401)	-	(1,401)
	-	(1,401)	-	(1,401)

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 financial position date the Company has yet to reach the stage of capitalization.

eSENSE-LAB LTD

ARBN 616 228 700

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE 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: -

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortized cost less any provision for impairment.

Financial Liabilities

The Company's trade and other payable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

The Company's convertible loan is measured upon initial recognition at Fair value through profit or loss.

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.

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

Earnings per share

Basic earnings per share is calculated as net loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

eSENSE-LAB LTD

ABN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016 NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Earnings per share (Cont.):

Diluted earnings per share is calculated as net loss attributable to members, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognized as expenses;
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Share based payments

The entity 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 economic model taking into accounts the terms and conditions upon which the instruments were granted. The accounting estimates are assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Deferred tax

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the estimated timing and level of future taxable profits together with future tax planning strategies.

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 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 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 carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Deferred tax (Cont.):

extent that their recoverability is probable. Any resulting reduction or reversal is recognized on "income tax" within the statement of comprehensive income. All deferred tax assets and liabilities are presented in the statement of financial position as non-current items, respectively. Deferred taxes are 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 and financial assets should be at fair value .

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, 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.

eSENSE-LAB LTD

ABN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New IFRSs in the period prior to their adoption (Cont.):

According to IFRS 9, changes in the fair value 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 .

Impairment - The impairment model is a more 'forward looking' model in that a credit event no longer has to occur before credit losses are recognized. For financial assets measured at amortized cost or fair value through other comprehensive income, an entity will now always recognize (at a minimum) 12 months of expected losses in profit or loss. Lifetime expected losses will be recognized on these assets when there is a significant increase in credit risk after initial recognition.

Hedging - The new hedge accounting model introduced the following key changes:

- Simplified effectiveness testing, including removal of the 80-125% highly effective threshold .
- More items will now qualify for hedge accounting, e.g. pricing components within a non-financial item, and net foreign exchange cash positions.
- Entities can hedge account more effectively the exposures that give rise to two risk positions (e.g. interest rate risk and foreign exchange risk, or commodity risk and foreign exchange risk) that are managed by separate derivatives over different periods .
- Less profit or loss volatility when using options, forwards, and foreign currency swaps .
- New alternatives available for economic hedges of credit risk and 'own use' contracts which will reduce profit or loss volatility.

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 is presently unable to assess its effect, if any, on the financial statements.

NOTE 3 – OTHER RECEIVABLES:

	<u>December 31, 2016</u>
Prepaid issuance expenses	161
VAT authorities	17
Others	<u>13</u>
Total	<u>191</u>

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 4 – CONVERTIBLE LOAN:

In November 2016, the Company signed a Convertible Loan Agreement ("the Agreement") with a number of investors ("the Lenders") which allowed the Company to borrow up to 1 million AUD. The company borrowed 970 thousands AUD till end of the year 2016. In the year 2017 the company borrowed 30 thousands AUD, according to the Agreement the loan will be mandatory converted to the company's shares at 50% discount with no interest of future initial public offering ("IPO") share price. In case of unsuccessful IPO the Lenders will be entitled to receive their loan amount in addition to 20% interest payment. The Company designated upon initial recognition that the convertible loan will be measured at fair value through profit or loss.

The loan was converted in February, 2017 (see also Note 14).

NOTE 5 – ISSUED CAPITAL:

Movements in fully paid ordinary shares

	2016	
	Date	Number
Balance at inception	April 13, 2016	5,338,334
Ordinary shares issued upon options exercise	November 21, 2016	472,000
Benefit shares (1:4.913827)	November 24, 2016	28,550,976
Balance at end of the period	December 31, 2016	34,361,310

Each Share in the Company confers upon the Shareholder:

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

No dividends have been paid or declared by the Company since the beginning of the current reporting period.

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 6 – SHARE BASED PAYMENTS:

A. Options granted to directors, shareholders and officers:

In November, 2016, the Company granted 472,000 options with no exercise price per share. All options were fully vested on grant date. The Company measures and recognizes share based payment on estimated fair values on the date of grant based on the underlying stock of the date of grant. The value of the Company's ordinary share was obtained based on information embedded in the Company's IPO in January 2017 (see also Note 14). All options were exercised on November 11, 2016.

B. Options granted to service providers:

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

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

C. Performance rights:

On December 5, 2016, six classes of Performance Rights ("Rights") were approved by shareholders at an Extraordinary General Meeting. The Rights convert to ordinary shares when the attaching milestone is met: 3,000,000 Class A Performance Right milestone requires the volume weighted average price (VWAP) for 20 consecutive trading days of shares equaling or exceeding 40 cents (AUD). The Rights vest immediately as they are market driven.

3,000,000 Class B Performance Right milestone requires the volume weighted average price (VWAP) for 20 consecutive trading days of shares equaling or exceeding 60 cents (AUD). The Rights vest immediately as they are market driven.

15,000,000 Class C Performance Rights require the Company signs binding distribution contracts worth AUD 1.0 million to supply its reconstructed Terpene Profiles within 12 months of admission on the ASX. Holders of Class C Performance Rights will also receive 0.67 Class E Performance right for every Class C Performance Right that vests. 15,000,000 Class D Performance Rights Generates cumulative revenue from the application of the Company's intellectual property relating to the analysis and reconstruction of Terpene Profiles of AUD 3.0 million within 24 months from the date of admission on the ASX. Holders of Class D Performance Rights will also receive 0.67 Class F Performance Right for every Class D Performance Right that vests.

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 6 – SHARE BASED PAYMENT (CONT.):**D. Performance rights (Cont.):**

10,111,311 Class E Performance require the Company signs binding distribution contracts worth AUD 2.0 million to supply its reconstructed Terpene Profiles within 18 months of admission on the ASX.

10,111,311 Class F Performance Rights Generates cumulative revenue from the application of the Company's intellectual property relating to the analysis and reconstruction of Terpene Profiles of AUD 6.0 million within 36 months from the date of admission on the ASX.

The fair value of performance shares is estimated by using a Monte Carlo simulation, with the assumption that the value of performance shares and the underlying milestones triggering the performance shares are correlated. The expected volatility is 50%.

NOTE 7 – RESERVES:**Movement:**

	<u>2016</u>
Balance at April 13, 2016 (inception)	-
Options issued to directors, shareholders and officers	413
Exercise of options	(413)
Options granted to service providers	161
Issuance of performance rights	1,990
Reserves as of December 31, 2016	<u>2,151</u>

NOTE 8 – RESEARCH AND DEVELOPMENT EXPENSES:

	<u>Period from April 13 (inception) to December 31, 2016</u>
Raw materials	191
Payroll and related	61
Patent	6
Total	<u>258</u>

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES:

	Period from April 13 (inception) to December 31, 2016
Professional fees	186
Payroll and related expenses	87
Travel expenses	16
Others	20
Total	<u>309</u>

NOTE 10 - EARNINGS PER SHARE:

Earnings 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:

	Period from April 13 (inception) to December 31, 2016
Loss for the year attributable to shareholders	\$ (3,656)
Weighted average number of ordinary shares	<u>33,960,384</u>
Basic and diluted loss per share	<u>\$ (0.11)</u>

NOTE 11 - TAXES ON INCOME:**A. Tax Rate Applicable to Income in Israel:**

The tax rates that applied to the Company in 2016 were 25%.

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

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

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 11 - TAXES ON INCOME (CONT.):**B. Net operating losses carry forwards:**

As of December 31, 2016, the Company has estimated carry forward tax losses of approximately 476 which may be carried forward and offset against taxable income for an indefinite period in the future. The Company did not recognized deferred tax relating to carry forward losses in the financial statements because their utilization in the foreseeable future is not probable.

C. Deferred income taxes:

The Company has provided a valuation allowance in respect of deferred tax assets ("DTA") resulting from the tax loss carry forward and other temporary differences. Management currently believes that it is more likely than not that the deferred tax regarding these tax loss carry forward and other temporary differences will not be realized.

D. Current income tax:

	Period from April 13 (inception) to December 31, 2016
Loss before tax	(3,656)
Theoretical tax ((credit)/charge) at applicable statutory (2016:25%)	914
Non allowable expenses	(601)
Tax losses for which no DTA is recognized	(313)
Income tax benefit	-

eSENSE-LAB LTD

ARBN 616 228 708

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 12 - RELATED PARTIES AND SHAREHOLDERS:

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

The following transactions arose with related parties:

Transaction	Account name	Period from April 13 (inception) to December 31, 2016
Management fee to CEO	General and administrative expenses	24
Management fee to CFO	General and administrative expenses	15
Service fee to CTO	Research and development expenses	23

1. Effective September 1, 2016, the Company signed a management agreement with the Company's CEO according to which, the Company shall pay the CEO, pre-IPO, a management fee of 6 plus VAT on a monthly basis and post IPO (see also Note 14), the management fee will be updated to 12.5 plus VAT on monthly basis.
2. Effective October 1, 2016, the Company signed a management agreement with the Company's CFO according to which, the Company shall pay the CFO, pre-IPO, a management fee of 5 plus VAT on a monthly basis and post IPO (see also Note 14) the management fee will be updated to 8 plus VAT on monthly basis.
3. Effective October 17, 2016, the Company signed a service agreement with the Company's CTO. According to which, the Company shall pay, pre IPO, the CTO service fee of 5 plus VAT on a monthly basis and post IPO (see also Note 14), the service fee will be updated to 8 plus VAT on monthly basis.

Liabilities to related parties:

Name	Nature of transaction	Account name	December 31, 2016
CEO	Accrued management fee	Accrued expenses	6
CFO	Accrued management fee	Accrued expenses	5
CTO	Accrued service fee	Accrued expenses	5

eSENSE-LAB LTD

ABRN 616 228 709

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

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

Credit risk:

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

	<u>December 31, 2016</u>
Cash And Cash Equivalents	477
Other Accounts Receivable	<u>30</u>
Total	<u>507</u>

eSENSE-LAB LTD

ARON 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 13- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):**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:

Assets

	<u>NIS</u>	<u>AUD</u>	<u>Total</u>
Cash And cash equivalents	5	377	382
Other receivables	30	-	30
	<u>35</u>	<u>377</u>	<u>412</u>

Liabilities

	<u>NIS</u>	<u>AUD</u>	<u>Total</u>
Trade and other payables	223	50	273
Convertible loan	-	1,401	1,401
	<u>223</u>	<u>1,451</u>	<u>1,674</u>

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ in thousands)

NOTE 13- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):**Sensitivity analysis:**

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

Linked to NIS	248
	10%
	<u>25</u>
Linked to AUD	1,074
	10%
	<u>107</u>

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. As of December 31, 2016, the Company has a negative working capital. In order to overcome its liquidity risk, the Company raised AUD 3.5 million via the IPO, following the financial position date (See also Note 14).

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.

	<u>December 31, 2016</u>
Trade and other payables	(337)
Convertible Loan	<u>(841)</u>
	<u>(1,178)</u>

eSENSE-LAB LTD

ARBN 616 228 703

FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

(\$ In thousands)

NOTE 13- 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 equity raisings. The Company manages its capital structure through raising funds from shareholders. At the balance sheet date, the Company has net cash and cash equivalents of 477 which includes a negative working capital. Management does not believe that there are significant capital risks in the near future.

Operational risk:

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

NOTE 14 - SUBSEQUENTS EVENTS:

A. Listing on Australian Securities Exchange (ASX):

On February 10, 2017 the Company was admitted to the official list on ASX, with trading commencing on the February 14, 2017, after the Company raised AUD 3.5 million via the issue of 17,500,000 CDIs at AUD 0.20 per CDI.

B. Convertible loan conversion:

In February, 2017, the convertible loan was converted upon listing on the ASX.

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

CORPORATE GOVERNANCE STATEMENT

The Company and the Board of Directors are committed to achieving the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders.

A description of the Group's main corporate governance practices is set out on the Company's website at <https://www.esense-lab.com/corporate-governance>. The Company has also lodged an Appendix 4G contemporaneously with this Annual Report.

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

ASX ADDITIONAL INFORMATION

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

1. Shareholdings

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

The issued capital of the Company as at 24 April 2017 is 61,861,311 shares. All issued ordinary fully paid shares carry one vote per share.

The Company as at 24 April 17 has issued the following unlisted securities:

- 5,638,689 unlisted options; and
- 36,000,000 performance rights.

2. Distribution of Equity Securities (Shareholders and CDI Holders)

Range	Holders	Units	%
1-1,000	1	1	0.00
1,001-5,000	125	445,180	0.72
5,001-10,000	109	964,198	1.56
10,001-100,000	207	8,100,967	13.10
100,001-9,999,999	81	52,350,965	84.62
Total	523	61,861,311	100.00

The number of investors holding a less than marketable parcel of 1,538 ESE shares (based on a share price of \$0.325) was 39.

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

ASX ADDITIONAL INFORMATION

3. Top 20 Largest Holders of Listed Securities as at 24 April 2017

	Name	Number of Shares	%
1.	BENJAMIN KARASIK	6,298,226	10.18
2.	EFRAIM MALIK	3,843,988	6.21
3.	NITZAN ORGAL	3,622,515	5.86
4.	ERAN GILBOA	2,847,188	4.6
4.	ARIEL MALIK	2,847,188	4.6
5.	ROMFAL SIFAT PTY LTD	2,615,698	4.23
6.	CLIVE WATERSON SUPERFUND PTY LTD	2,573,001	4.16
7.	DR YARON PENN	2,194,030	3.55
8.	THE GAS SUPER FUND PTY LTD	1,500,000	2.42
9.	BUZZ CAPITAL PTY LTD	1,453,169	2.35
10.	ATTOLLO INVESTMENTS PTY LTD	1,453,157	2.35
11.	HAIM COHEN	1,123,627	1.82
12.	DR BORNSTEIN LTD	1,091,383	1.76
13.	YOSSEF SHOLT	810,194	1.31
14.	CARJAY INVESTMENTS PTY LTD	750,000	1.21
14.	ASENNA WEALTH SOLUTIONS PTY LTD	750,000	1.21
15.	MIRA CARMELI WEISSBERG	709,659	1.15
16.	NOY OFIR	662,349	1.07
17.	MEDEK INVESTMENTS PTY LTD <MEDEK SUPER FUND A/C>	622,786	1.01
18.	GIL LEVY	591,383	0.96
18.	GALIT KLAIMAN	591,383	0.96
18.	DR MOTI GROSS	591,383	0.96
19.	CITICORP NOMINEES PTY LIMITED	541,591	0.86
20.	PETERLYN PTY LTD <RPC SALMON SUPER FUND A/C>	500,000	0.80
	Total top 20	40,583,898	65.59
	Total Remaining Holders Balance	21,277,413	34.41
	Total shares on issue	61,861,311	100.00

4. Voting Rights

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

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

eSENSE-LAB LIMITED

ARBN 616 228 703

ANNUAL REPORT FOR THE PERIOD FROM APRIL 13, 2016 (INCEPTION) TO DECEMBER 31, 2016

ASX ADDITIONAL INFORMATION

5. Unquoted securities as at 24 April 2017

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

Unlisted Security	Option	Option	Performance Right A	Performance Right B	Performance Right C	Performance Right D
Exercise Price	\$0.01	\$0.25				
Expiry	19 Jan 2022	7 Feb 2020	30 Jan 2019	30 Jan 2019	30 Jan 2019	30 Jan 2019
ZVI VOGEL	638,689	-	-	-	-	-
BENJAMIN KARASIK					4,296,915	4,296,915
Total number of holders	1	-	-	-	1	1
Holders less than 20%	-	27	6	6	10	10
Total	638,689	5,000,000	3,000,000	3,000,000	15,000,000	15,000,000

6. Substantial shareholders as at 24 April 2017

	Name	Number of Shares	% Holding
1	BENJAMIN KARASIK	6,298,226	10.18
2	EFRAIM MALIK	3,843,988	6.21
3	NITZAN ORGAL	3,622,515	5.86

7. Restricted Securities Subject to Escrow

The following securities are subject to escrow:

	Name	Number of Securities	Escrow Period Expiry
1	CDI Escrowed 12M	4,500,000	30 Jan 2018
2	CDI Escrowed 24M	4,500,000	30 Jan 2019
3	Unlisted Option \$0.01 24M	638,689	19 Jan 2022
4	Unlisted Option \$0.25 24M	5,000,000	7 Feb 2020
5	Performance Rights A 24M	3,000,000	30 Jan 2019
6	Performance Rights B 24M	3,000,000	30 Jan 2019
7	Performance Rights C 24M	15,000,000	30 Jan 2019
8	Performance Rights D 24M	15,000,000	30 Jan 2019

8. On-market buy back

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

9. Group cash and assets

In accordance with Listing Rule 4.10.19, the Company confirms that it has been using the cash and assets for the period ended 31 December 2016 in a way that is consistent with its business objectives and strategy.