

**ROOTS SUSTAINABLE AGRICULTURAL**  
**TECHNOLOGIES LTD.**

**FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

**ROOTS SUSTAINABLE AGRICULTURAL  
TECHNOLOGIES LTD.**

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2016**

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The amounts are stated in U.S. dollars (\$)

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**Independent Auditors' Report to Shareholders of Roots Sustainable Agricultural Technologies Ltd.**

We have audited the accompanying statements of financial position of Roots Sustainable Agricultural Technologies Ltd (the "Company"), as of December 31, 2016, 2015 and 2014 and the related statements of comprehensive income, changes in deficit and cash flows for the three years ended 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Auditors Regulations (Auditor's Mode of Performance), 1973. 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the company as of December 31, 2016, 2015 and 2014, and the results of its operations, changes in deficit and its cash flows for the three years ended December 31, 2016 in accordance with International Financial Reporting Standards (IFRS).

Tel-Aviv, Israel  
July 5, 2017

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



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**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****STATEMENTS OF FINANCIAL POSITION**

|   |      | As at December 31, |                  |                 |
|---|------|--------------------|------------------|-----------------|
|   |      | 2016               | 2015             | 2014            |
|   |      | U.S. \$            |                  |                 |
|   | Note |                    |                  |                 |
| <b>ASSETS</b>                               |      |                    |                  |                 |
| <b>CURRENT ASSETS:</b>                      |      |                    |                  |                 |
| Cash and cash equivalents                   |      | 101,988            | 47,914           | 130,594         |
| Restricted cash                             | 7.B  | 10,405             | 10,252           | 10,285          |
| Other accounts receivables                  | 4    | 6,668              | 86,360           | 43,418          |
| <b>TOTAL CURRENT ASSETS</b>                 |      | <b>119,061</b>     | <b>144,526</b>   | <b>184,297</b>  |
| <b>NON CURRENT ASSETS:</b>                  |      |                    |                  |                 |
| Property and equipment, net                 |      | 2,291              | 3,393            | 4,709           |
| <b>TOTAL ASSETS</b>                         |      | <b>121,352</b>     | <b>147,919</b>   | <b>189,006</b>  |
| <b>LIABILITIES AND EQUITY</b>               |      |                    |                  |                 |
| <b>CURRENT LIABILITIES:</b>                 |      |                    |                  |                 |
| Trade payables                              |      | 35,772             | 39,154           | 14,241          |
| Other account payables                      | 5    | 29,491             | 198,894          | 58,805          |
| Convertible loans                           | 6    | -                  | 60,870           | -               |
| <b>TOTAL CURRENT LIABILITIES</b>            |      | <b>65,263</b>      | <b>298,918</b>   | <b>73,046</b>   |
| <b>NON CURRENT LIABILITIES:</b>             |      |                    |                  |                 |
| Governmental liabilities on grants received | 7.C  | 533,433            | 363,810          | 131,387         |
| <b>TOTAL NON CURRENT LIABILITIES</b>        |      | <b>533,433</b>     | <b>363,810</b>   | <b>131,387</b>  |
| <b>SHAREHOLDERS DEFICIT:</b>                |      |                    |                  |                 |
| Share Capital and Capital reserves          | 8, 9 | 1,059,818          | 544,387          | 382,354         |
| Accumulated deficit                         |      | (1,537,162)        | (1,059,196)      | (397,781)       |
| <b>TOTAL SHAREHOLDERS DEFICIT</b>           |      | <b>(477,344)</b>   | <b>(514,809)</b> | <b>(15,427)</b> |
| <b>TOTAL LIABILITIES AND DEFICIT</b>        |      | <b>121,352</b>     | <b>147,919</b>   | <b>189,006</b>  |

July 5, 2017  
Date of approval of the  
financial statements

  
Sharon Devir  
Chief Executive officer

  
Boaz Wachtel  
Director

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

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****STATEMENTS OF COMPREHENSIVE LOSS**

|   |             | <b>For the year ended December 31,</b> |                |             |
|---|-------------|--|----------------|-------------|
|   |             | <b>2016</b>                            | <b>2015</b>    | <b>2014</b> |
|   | <b>Note</b> |  | <b>U.S. \$</b> |             |
| Revenues  |             | 5,728                                  | -              | -           |
| <b>Gross profit</b>   |             | 5,728                                  | -              | -           |
| Research and development, net   | 10          | 291,556                                | 580,536        | 247,371     |
| General and administrative expenses   | 11          | 36,737                                 | 39,015         | 26,825      |
| <b>Operating loss</b>   |             | 322,565                                | 619,551        | 274,196     |
| Finance expense   | 12          | 155,401                                | 41,864         | 8,544       |
| <b>Loss before income tax</b>   |             | 477,966                                | 661,415        | 282,740     |
| Taxes on income   | 13          | -                                      | -              | 447         |
| <b>Net loss</b>   |             | 477,966                                | 661,415        | 283,187     |
| Other comprehensive loss  |             |  |                |             |
| <i>Items that will not be reclassified to profit or loss:</i>                     |             |  |                |             |
| Adjustment arising from translation of financial statements of foreign operations |             | 7,671                                  | (2,089)        | 9,944       |
| <b>Total comprehensive loss</b>   |             | 485,637                                | 659,326        | 293,131     |
| <b>Loss per share (U.S. dollars)</b>  |             |  |                |             |
| Basic   | 14          | (0.03)                                 | (0.05)         | (0.02)      |

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

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****STATEMENTS OF CHANGES IN DEFICIT****For the year ended December 31, 2014:**

|  | <b>Note</b> | <b>Share<br/>Capital</b> | <b>Additional<br/>paid-in<br/>capital</b> | <b>Share based<br/>payment<br/>Reserve</b> | <b>Capital reserve<br/>U.S. \$</b> | <b>Accumulated<br/>Deficit</b> | <b>Total Equity</b> |
|--|-------------|--------------------------|---|--|------------------------------------|--------------------------------|---------------------|
| <b>Balance at January 1, 2014</b>              |             | 527                      | 111,292                                   | -  | (2,850)                            | (114,594)                      | (5,625)             |
| <b>Changes during the period:</b>              |             |                          |   |  |                                    |                                |                     |
| <b>Comprehensive loss:</b>                     |             |                          |   |  |                                    |                                |                     |
| Loss for the period                            |             | -                        | -   | -  | -                                  | (283,187)                      | (283,187)           |
| <b>Other comprehensive loss:</b>               |             |                          |   |  |                                    |                                |                     |
| Translation differences                        |             | -                        | -   | -  | (9,944)                            | -                              | (9,944)             |
| <b>Total comprehensive loss for the period</b> |             | -                        | -   | -  | (9,944)                            | (283,187)                      | (293,131)           |
| Issue of share capital                         | 8           | 50                       | 283,279                                   | -  | -                                  | -                              | 283,329             |
| <b>Balance as of December 31, 2014</b>         |             | <u>577</u>               | <u>394,571</u>                            | <u>-</u>                                   | <u>(12,794)</u>                    | <u>(397,781)</u>               | <u>(15,427)</u>     |

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

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****STATEMENTS OF CHANGES IN DEFICIT****For the year ended December 31, 2015:**

|  | <b>Note</b> | <b>Share<br/>Capital</b> | <b>Additional<br/>paid-in<br/>capital</b> | <b>Share based<br/>payment<br/>Reserve</b> | <b>Capital<br/>reserve<br/>U.S. \$</b> | <b>Accumulated<br/>Deficit</b> | <b>Total Equity</b> |
|--|-------------|--------------------------|---|--|--|--------------------------------|---------------------|
| <b>Balance at January 1, 2015</b>              |             | 577                      | 394,571                                   | -  | (12,794)                               | (397,781)                      | (15,427)            |
| <b>Changes during the period:</b>              |             |                          |   |  |  |                                |                     |
| <b>Comprehensive loss:</b>                     |             |                          |   |  |  |                                |                     |
| Loss for the period                            |             | -                        | -   | -  | -                                      | (661,415)                      | (661,415)           |
| <b>Other comprehensive loss:</b>               |             |                          |   |  |  |                                |                     |
| Translation differences                        |             | -                        | -   | -  | 2,089                                  | -                              | 2,089               |
| <b>Total comprehensive loss for the period</b> |             | -                        | -   | -  | 2,089                                  | (661,415)                      | (659,326)           |
| Share based payment                            | 9           | -                        | -   | 159,944                                    | -                                      | -                              | 159,944             |
| <b>Balance as of December 31, 2015</b>         |             | <u>577</u>               | <u>394,571</u>                            | <u>159,944</u>                             | <u>(10,705)</u>                        | <u>(1,059,196)</u>             | <u>(514,809)</u>    |

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

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****STATEMENTS OF CHANGES IN DEFICIT****For the year ended December 31, 2016:**

|  | <b>Share<br/>Capital</b> | <b>Additional<br/>paid-in<br/>capital</b> | <b>Share based<br/>payment<br/>Reserve</b> | <b>Capital reserve<br/>U.S. \$</b> | <b>Accumulated<br/>Deficit</b> | <b>Total Equity</b> |
|--|--------------------------|---|--|------------------------------------|--------------------------------|---------------------|
| <b>Note</b>                                    |                          |   |  |                                    |                                |                     |
| <b>Balance at January 1, 2016</b>              | 577                      | 394,571                                   | 159,944                                    | (10,705)                           | (1,059,196)                    | (514,809)           |
| <b>Changes during the period:</b>              |                          |   |  |                                    |                                |                     |
| <b>Comprehensive loss:</b>                     |                          |   |  |                                    |                                |                     |
| Loss for the period                            | -                        | -   | -  | -                                  | (477,966)                      | (477,966)           |
| <b>Other comprehensive loss:</b>               |                          |   |  |                                    |                                |                     |
| Translation differences                        | -                        | -   | -  | (7,671)                            | -                              | (7,671)             |
| <b>Total comprehensive loss for the period</b> | -                        | -   | -  | (7,671)                            | (477,966)                      | (485,637)           |
| Issue of share capital                         | 8                        | 37  | 243,685                                    | -                                  | -                              | 243,722             |
| Exercise of options to share capital           | 9                        | 24  | 159,944                                    | (159,944)                          | -                              | 24                  |
| Conversion of convertible loans                | 7                        | 39  | 279,317                                    | -                                  | -                              | 279,356             |
| <b>Balance as of December 31, 2016</b>         | <u>677</u>               | <u>1,077,517</u>                          | <u>-</u>                                   | <u>(18,376)</u>                    | <u>(1,537,162)</u>             | <u>(477,344)</u>    |

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



**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****STATEMENTS OF CASH FLOWS**

|   | <b>For the year ended December 31,</b> |                  |                  |
|---|--|------------------|------------------|
|   | <b>2016</b>                            | <b>2015</b>      | <b>2014</b>      |
|   | <b>U.S. \$</b>                         |                  |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |  |                  |                  |
| Net loss for the year   | (477,966)                              | (661,415)        | (283,187)        |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                  |                  |
| Depreciation  | 1,148                                  | 1,182            | 810              |
| Share-based compensation expenses   | -                                      | 159,944          | -                |
| Loss (gain) from changes in fair value of embedded derivative                     | 13,424                                 | (1,705)          | -                |
| Finance expense, net  | 141,884                                | 38,066           | 10,000           |
| Change in liability for grants received from the OCS                              | 61,517                                 | 248,812          | 132,661          |
| Increase in other accounts receivable   | (18,632)                               | (170,338)        | (164,015)        |
| Increase (decrease) in trade payable  | (4,008)                                | 25,076           | (9,868)          |
| Increase (decrease) in other accounts payable                                     | (10,483)                               | 4,339            | 11,755           |
| <b>Net cash used in operating activities</b>                                      | <b>(293,116)</b>                       | <b>(356,039)</b> | <b>(301,844)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |  |                  |                  |
| Purchase of property and equipment  | -                                      | (27)             | (2,720)          |
| Proceeds from sale of property and equipment                                      | -                                      | 152              | -                |
| Increase in restricted cash   | -                                      | -                | (11,168)         |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>-</b>                               | <b>125</b>       | <b>(13,888)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |  |                  |                  |
| Receipt of grants from the OCS  | 99,698                                 | 127,051          | 155,698          |
| Exercise of options by employees  | 24                                     | -                | -                |
| Issuance of convertible loans   | 1,749                                  | 48,746           | -                |
| Embedded derivative   | 3,498                                  | 97,491           | -                |
| Proceeds from issuance of ordinary shares   | 243,722                                | -                | 283,330          |
| <b>Net cash provided by financing activities</b>                                  | <b>348,691</b>                         | <b>273,288</b>   | <b>439,028</b>   |
| <b>Translation differences on cash and cash equivalents</b>                       | <b>1,501</b>                           | <b>54</b>        | <b>20,017</b>    |
| <b>Increase in cash and cash equivalents</b>                                      | <b>54,074</b>                          | <b>(82,680)</b>  | <b>103,279</b>   |
| <b>Cash and cash equivalents at beginning of the year</b>                         | <b>47,914</b>                          | <b>130,594</b>   | <b>27,315</b>    |
| <b>Cash and cash equivalents at the end of the year</b>                           | <b>101,988</b>                         | <b>47,914</b>    | <b>130,594</b>   |

**(a) Significant non-cash transactions:**

In September 2016, the convertible loans (which include embedded derivative) in the amount of 279 thousand were converted into 14,996 ordinary shares NIS 0.01 par value, total of 39 U.S dollars see note 6.

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

## **ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - GENERAL:**

A. ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES Ltd. (the "Company") was incorporated in Israel on 20 April 2009 but commenced its operations in November 2012.

Roots is an agriculture technology company focused on developing, producing and commercialising precision agriculture technologies that address difficult weather conditions, improve crop yields and provide water for irrigation in a cost effective and environmentally sustainable manner.

The formal address of the company is Hamezach 1 Str. Kefar Vitkin, Israel.

B. The company is an emerging company, a company in its research and development stage, and does not generate revenue that can support its operation. The company ability to create profit and to continue to operate as a business is based on the company ability to generate revenues in the coming years. During 2017 the company raised about one million dollar therefore the Management believes the company has the resources to continue as a going concern.

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

The significant accounting policies followed in the preparation of the financial information, on a consistent basis, are:

##### **A. Basis of preparation:**

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

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 of embedded derivative that measured at fair value through profit or loss.

##### **B. 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, revenue and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates used by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in note 3.

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

**C. Functional and reporting currency:**

The majority of the revenues of the Company are generated in New Israeli Shekel (hereafter "NIS"). In addition, a substantial portion of the Company's costs are incurred in NIS. Thus, the functional currency of the Company is NIS.

The reporting currency of the financial statements are presented in US dollars since the company is in an IPO process of listing on the Australian Securities Exchange (ASX).

Assets and liabilities are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive loss.

**D. Foreign currency transactions:**

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate as of the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate as of that date. Exchange differences, other than those capitalized to qualifying assets are recognized in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the exchange rate as of the date of the transaction.

**E. Governmental liabilities on grants received:**

Grants received from the OCS for Research and Development Foundation (henceforth "OCS") as support for a research and development projects include an obligation to pay back royalties conditional on future sales arising from the project. Grants received from the OCS on or after January 1, 2009, are accounted for as forgivable loans, in accordance with IAS 20, pursuant to the provisions of IAS 39. Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a grant and recognized in profit or loss as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Changes in the projected cash flows are discounted using the original effective interest and recorded in profit or loss in accordance with the provisions of IAS 39.

At the end of each reporting period, the company evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid. If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as an adjustment of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

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

**F. 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.

**G. Restricted cash:**

Restricted cash is considered by the Company to be deposits with banks which are used mainly as a security for guarantees provided against payable payments in advance.

**H. Deferred taxation:**

Deferred tax asset or liability is recognized where the carrying amount of an asset or liability in the statement of financial position differs from its tax base.

Recognition of deferred tax asset is restricted to those instances where it is probable that such difference can be utilized.

As of December 31, 2016 and 2015, there is no temporary difference and tax assets since it is not probable that taxable profit will be available in the foreseen future therefore no tax assets recognized.

**I. 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:** Loans and 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, loans are measured based on their terms at amortized cost plus directly attributable transaction costs using the effective interest method and less any impairment losses.

**J. Impairment of financial assets:**

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset as follows.

Financial assets carried at amortized cost:

There is objective evidence of impairment of loans and receivables if one or more events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate at initial recognition). If the financial asset has a variable interest rate, the discount rate is the current

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

**J. Impairment of financial assets (cont.):**

effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal recorded in profit or loss.

**K. Impairment of non-financial assets:**

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of the non-financial asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to dispose), the asset is written down and impairment charge is recognized accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the smallest group of assets to which the asset belongs that generates cash inflow that are largely independent of cash inflows from other assets).

During the years 2016, 2015 and 2014 no impairment charges of non-financial assets were recognized.

**L. 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:

1. In the principal market for the asset or liability, or
2. 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 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 which is determined based on the source of input used in measuring fair value:

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

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

**L. Fair value measurement (cont.):**

- 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 which use inputs that are not based on observable market data).

**M. Financial Liabilities:**

The Company financial liabilities are mostly governmental liabilities, convertible loans, trade payables and other accounts payable, the governmental grants measured at amortized cost using the effective interest rate method. The convertible loans are initially recognized at Fair value and subsequently measured at amortized cost using the effective interest rate method.

The convertibles loans include embedded derivative which measured as follow:

Derivatives, including separated embedded derivatives, classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

**N. Property, plant and equipment:**

Property and equipment are stated at cost, net of accumulated depreciation and net of impairment. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following rates:

|                         | <u>%</u> |
|-------------------------|----------|
| Computer equipment      | 33       |
| Machinery and equipment | 7-20     |

**O. Employee benefits:**

- 1. Short-term employee benefits:** Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid sick leave, recreation, and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made, actuary measurements was not applied due to immaterial amount.

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

**O. Employee benefits (Cont.):**

- 2. Post-employment benefits:** The plans are normally financed by contributions to insurance companies and classified as defined contribution plans.

The Company has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Company pays fixed contributions to a specific fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense simultaneously with receiving the employee's services and no additional provision is required in the financial statements except for the unpaid contribution.

**P. Share-based payments:**

Where equity settled share options are awarded to employees, the fair value of the options calculated at the grant date based on the share fair price is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense charged is not adjusted for failure to achieve a market vesting condition.

**Q. Research and Development:**

Costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

During the years 2016, 2015 and 2014 the company didn't stand in the following criteria therefore all research and development recognized as expenses.

**R. Operating Segment**

The company currently conduct its operation through one operating segment.



**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

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

**S. 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 financial statements.

IFRS 15 - "Revenue from Contracts with Customers" (hereafter - IFRS 15):

Upon first time application, IFRS 15 shall replace other IFRS provisions relating to revenue recognition. The core principle of IFRS 15 is that an entity will recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.



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

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

IFRS 15 sets out a single revenue recognition model, according to which the entity shall recognize revenue in accordance with the said core principle by implementing a five-step model framework:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 provides guidance about various issues related to the application of the said model, including: recognition of revenue from variable consideration set in the contract, adjustment of the price of transaction set in the contract in order to reflect the effect of the time value of money and costs to obtain or fulfill a contract. IFRS 15 extends the disclosure requirements regarding revenue and requires, among other things, that entities disclose qualitative and quantitative information about significant judgments made by management in determining the amount and timing of the revenue. The standard shall be applied retrospectively for annual reporting periods starting on January 1, 2018 or thereafter, taking into account the reliefs specified in the transitional provisions of IFRS 15. Under these provisions, early adoption of the standard is allowed. The Company is still assessing if the implementation of IFRS 15 will have material impact on the financial statements.

**NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:**

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Company's earnings and financial position are the recognition of share based payments and Governmental liabilities on grants received.

**Share based payments**

The Company has a share based remuneration scheme for employees. The fair value of share options is estimated by using the Black&Scholes option pricing model, on the date of grant based on certain assumptions. Those assumptions are described in note 8 and include, among others, the dividend growth rate, expected share price volatility, expected life of the options and number of options expected to vest. The fair value of the equity settled options granted is charged to statement of comprehensive income on a straight-line basis over the vesting period of each tranche and the credit is taken to equity, based on the Company's estimate of shares that will eventually vest. The share options plan does not have any performance conditions other than continued service.

**Governmental liabilities on grants received**

The Company measured the fair value of its governmental liabilities on grants received, each period, based on discounted cash flows derived from Company's future anticipated revenues. The discount rate reflect the market rate.

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - OTHER ACCOUNTS RECEIVABLES:**

|                         | As at December 31, |               |               |
|-------------------------|--------------------|---------------|---------------|
|                         | 2016               | 2015          | 2014          |
|                         | U.S. \$            |               |               |
| Government institutions | 4,724              | 79,634        | 42,399        |
| Prepaid expenses        | 908                | 2,343         | 655           |
| Other receivables       | 1,036              | 4,383         | 364           |
|                         | <u>6,668</u>       | <u>86,360</u> | <u>43,418</u> |

**NOTE 5 - OTHER ACCOUNTS PAYABLES:**

|   | As at December 31, |                |               |
|---|--------------------|----------------|---------------|
|   | 2016               | 2015           | 2014          |
|   | U.S. \$            |                |               |
| Employees and related institutions              | 19,232             | 26,144         | 25,580        |
| Accrued expenses                                | 2,136              | 4,100          | 2,911         |
| Liabilities to related parties                  | 2,758              | 2,337          | 314           |
| Embedded derivative                             | -                  | 95,786         | -             |
| Deferred income                                 | -                  | 70,000         | 30,000        |
| Governmental liabilities on grants received (*) | 5,365              | 527            | -             |
|   | <u>29,491</u>      | <u>198,894</u> | <u>58,805</u> |

(\*) see also note 7.C

**NOTE 6 - CONVERTIBLE LOANS:**

A. In august 2015, (hereafter: effective date) the Company entered into a convertible loan agreement (hereafter: loan), pursuant to which, the lenders loaned the Company an amount of 106 thousand U.S. dollars. The loan bears an annual interest of 5% to be repaid in one lump sum with the loan principal upon the lapse of 16 months as of the effective date. The lenders may convert the loan into the Company's ordinary share in amount equal to 60% of the share fair price of conversion during 16 months after the effective date.

At the effective date, the company acknowledged an amount of 70 thousand U.S. dollars of the loan received as an embedded derivative, which reflects the fair value of 40% discount on the Company's ordinary share in case of conversion. Following the measurement dates, the company measures the embedded derivative by fair value until its conversion or repayment.

The residual value of the loan, an amount of 36 thousand U.S. dollars, is classify as a convertible loan and is amortize by effective interest until its conversion or repayment.

In September 2016, the lenders chose to convert the loan in amount of 112 thousand U.S. dollars (interest include) in exchange for 10,464 of the Company's ordinary share NIS 0.01 par value (24 U.S dollars). Due to the conversion, the embedded derivative and the convertible loan in total amount of 176 thousand U.S. dollars imputed to Premium (additional paid in capital).

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - CONVERTIBLE LOANS (CONT.):**

- B. In September 2015, (hereafter: effective date) the Company entered into a convertible loan agreement (hereafter: loan) with its employee (also shareholder). According to the agreement, the company would deduct from the employee's salary an amount of 4 thousand U.S. dollars for each month starting December 2014 until August 2015 and an average amount of 2 thousand U.S. dollars for each month starting September 2015 until February 2016.

The loan bears an annual interest of 5% to be repaid in one lump sum with the loan principal during a period of 18 months as of the effective date. The employee may convert the loan into the Company's ordinary share in amount equal to 60% of the per share issuance price of conversion during 18 months as of the effective date.

As of December 31, 2015, and March 1, 2016, (hereafter: measurement dates) the company acknowledged an amount of 27 and 4 thousand U.S. dollars, respectively, of the loan received as an embedded derivative, which reflects the fair value of 40% discount on the Company's ordinary share in case of conversion. Following the measurement dates, the company measures the embedded derivative by fair value until its conversion or repayment.

The residual value of the loan, an amount of 14 and 2 thousand U.S. dollars as of December 31, 2015, and March 1, 2016, respectively, classified as a convertible loan and amortized by effective interest until its conversion or repayment.

In August 2016, the employee chose to convert the loan in amount of 47 thousand U.S. dollars (interest include) in exchange for 4,532 of the Company's ordinary share NIS 0.01 par value.

- C. Due to the conversion, the embedded derivative and the convertible loan in total amount of about 103 thousand U.S. dollars imputed to Premium (additional paid in capital).

**NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES:**

- A. The Company leases premises for its offices and R&D center in Bet Halevi. The initial contract period ended September 30, 2015. According to the lease agreement, the Company has an option to renew the lease period for three additional years at its discretion. The company chose to utilize this option.

Total rent expenses for the years ended December 31, 2016, 2015 and 2014 were 3, 7 and 0, thousands U.S. dollars respectively.

- B. As of December 31, 2016, 2015 and 2014, the Company has a lien in first degree to the bank in amount of approximately 10 thousands U.S. dollars for each of the years on a deposit account and all cash and securities deposited in them.

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****NOTES TO FINANCIAL STATEMENTS****NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.):**

C. The Company participates in programs sponsored by the Chief Scientist ("OCS"), for the support of research and development projects. Several programs are subjected to royalties, while others are not (the company is committed to pay royalties for the R&D programs, while the research programs does not required repayment). In exchange for the Chief Scientist's participation in the programs, the Company is required to pay royalties to the Chief Scientist at a rate between 3% and 3.5% of sales of developed products linked to U.S dollars, until repayment of 100% of the amount of grants received, plus annual interest at the LIBOR rate. The company is required to pay royalties, to the OCS, of sales to end customers of products developed with funds provided by the Chief Scientist, if and when such sales are recognized. As of December 31, 2016, 2015 and 2014 the Company has received grants amounted to 100, 127 and 156 thousands U.S. dollars, the aggregate governmental liabilities was 539, 364 and 131 thousands U.S. dollars, respectively. The exceptions of the Company to pay the grants are based on its estimation at the end of the each year.

As of December 31, 2016 the company haven't paid yet any Royalty payments to the OCS.

**NOTE 8 - SHAREHOLDERS EQUITY:****A. Composition of share capital:**

|  | <b>December 31, 2016</b> |                                   |
|--|--------------------------|-----------------------------------|
|  | <b>Authorized</b>        | <b>Issued and<br/>outstanding</b> |
|  | <b>Number of shares</b>  |                                   |
| Ordinary shares of NIS 0.01 par value: | 1,000,000                | 256,269                           |
|  |                          |                                   |
|  | <b>December 31, 2015</b> |                                   |
|  | <b>Authorized</b>        | <b>Issued and<br/>outstanding</b> |
|  | <b>Number of shares</b>  |                                   |
| Ordinary shares of NIS 0.01 par value: | 1,000,000                | 217,682                           |
|  |                          |                                   |
|  | <b>December 31, 2014</b> |                                   |
|  | <b>Authorized</b>        | <b>Issued and<br/>outstanding</b> |
|  | <b>Number of shares</b>  |                                   |
| Ordinary shares of NIS 0.01 par value: | 1,000,000                | 217,682                           |

The Ordinary shares confer upon the holders their right to attend general meetings where each Ordinary share shall have one vote for all purposes to share, on a pro rata basis, in bonus shares, bonuses, profits or distributions as may be declared by the Board and approved by the shareholders; Upon liquidation or dissolution - to participate in the distribution of the assets of the Company legally available for distribution to shareholders after payment of all debts and other liabilities of the Company.

**NOTE 8 - SHAREHOLDERS EQUITY (CONT.):**

**A. Composition of share capital (Cont.):**

- In the establish day the company issued 10,000 ordinary shares of NIS 0.01 par value for its founders.
- In 2013 the company issued 90,000 Ordinary Shares as bonus shares to be pro-rata allocated to the holders of the Ordinary Shares of the Company so that the holding ratio remain the same as previous to the issuance.
- In 2013 the company signed an investment agreement to issue 108,333 ordinary shares of NIS 0.01 par value, for a total amount of 227 thousands U.S. dollars. An amount of 100,000 ordinary shares were issued for 112 thousands U.S. dollars that was received in 2013 and additional of 115 thousand U.S. dollars were received in 2014 (with the issue of 8,330 ordinary shares of NIS 0.01).
- In 2014 the company issued 9,347 ordinary shares of NIS 0.01 par value, for a total amount of 168 thousands U.S. dollars.
- In 2016, the company has issued share capital as following:  
The company issued 10,464 ordinary shares of NIS 0.01 par value for four lenders and 4,532 ordinary shares of NIS 0.01 par value for an employee. See also note 6.  
Two employees' exercised 9,256 options into 9,256 ordinary shares of NIS 0.01 par value at a price of NIS 0.01 per share. See also note 9.  
The company issued 14,335 ordinary shares of NIS 0.01 par value, for a total amount of 244 thousand U.S. dollars.

**NOTE 9 - SHARE BASED PAYMENT:**

On January 2015, the Board of Directors approved an Employee Stock Option Plan ("ESOP"). The plan includes total of 11,570 options to be converted to 111 thousand shares of the Company.

The options vesting schedule as follow: for 50% to vest immediately and the rest until the end of 2015, subject to continued employment or service.

As of December 31, 2016 total of 9,256 options were granted, and 2,314 fortified.

The ESOP was adopted in accordance with the amended Sections 102 and 3(i) of the Income Tax Ordinance.

Under the Plan, options to purchase Ordinary shares of the Company may be granted, from time-to-time, to employees, advisors, directors, consultants and service providers of the Company, each option granted can be exercised to one Ordinary share of the Company.

The Company recognizes share based compensation costs for only those shares expected to vest on a straight-line basis of each tranche over the requisite service period of the award.

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****NOTES TO FINANCIAL STATEMENTS****NOTE 9 - SHARE BASED PAYMENT (CONT.):**

Each option granted under the Plan to non-employees or employees expires no later than ten years from the date of the grant. Any options which are canceled or forfeited before expiration become available for future grants.

The weighted average fair value of the options was estimated using a Black & Scholes option pricing model based on the following significant data and assumptions:

|                                  | <u><b>Date of grant</b></u><br><u><b>15.01.2015</b></u> |
|----------------------------------|---|
| Share price (USD)                | 17.28   |
| Exercise price (USD)             | -   |
| Expected volatility              | 46.18%  |
| Risk-free interest rate          | 1.86%   |
| Expected dividends               | 0%  |
| Expected average life of options | 6   |

The volatility measured at the standard deviation of expected share price returns is based on the historical volatility of the similar companies.

Data related to the share option plan as of December 31, 2016 and changes during the two years ended on that date are as follows:

|  | <u><b>2016</b></u>                      |   | <u><b>2015</b></u>                      |   |
|--|---|---|---|---|
|  | <u><b>Number<br/>of<br/>Options</b></u> | <u><b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>NIS</b></u> | <u><b>Number<br/>of<br/>Options</b></u> | <u><b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>NIS</b></u> |
| Options outstanding as beginning of year                             | 11,570                                  | 0.01  | -                                       | -   |
| <b>Changes during the year:</b>                                      |   |   |   |   |
| Granted  | -                                       | -   | 11,570                                  | 0.01  |
| Forfeited  | 2,314                                   | 0.01  | -                                       | -   |
| Exercised  | 9,256                                   | 0.01  | -                                       | -   |
| Options outstanding at end of year                                   | <u>-</u>                                | <u>-</u>  | <u>-</u>                                | <u>-</u>  |
| Options exercisable at year-end                                      | <u>-</u>                                | <u>-</u>  | <u>9,256</u>                            | <u>0.01</u>   |
| Weighted-average fair value of options Granted during the year (USD) | <u>-</u>                                |   | <u>17.28</u>                            |   |

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****NOTES TO FINANCIAL STATEMENTS****NOTE 10 - RESEARCH AND DEVELOPMENT, NET:**

|  | <b>For the year ended December 31,</b> |                |                 |
|--|--|----------------|-----------------|
|  | <b>2016</b>                            | <b>2015</b>    | <b>2014</b>     |
|  |  | <b>U.S. \$</b> |                 |
| Salaries and benefits                                      | 138,097                                | 218,138        | 194,052         |
| Share-based payment  | -                                      | 159,944        | -               |
| Subcontractors   | 46,210                                 | 31,862         | 61,402          |
| Legal fees   | 39,185                                 | 32,483         | 20,941          |
| Materials  | 28,827                                 | 55,200         | 10,208          |
| Depreciation   | 1,102                                  | 1,181          | 810             |
| Participation in expense                                   | (4,451)                                | (3,273)        | (22,127)        |
| Other  | 5,626                                  | 4,796          | 1,194           |
|  | <u>254,596</u>                         | <u>500,331</u> | <u>266,480</u>  |
| Governmental Grants received and changes in liability, net | <u>36,960</u>                          | <u>80,205</u>  | <u>(19,109)</u> |
| <b>Total</b>   | <u>291,556</u>                         | <u>580,536</u> | <u>247,371</u>  |

**NOTE 11 - GENERAL AND ADMINISTRATIVE EXPENSES:**

|                            | <b>For the year ended December 31,</b> |                |               |
|----------------------------|--|----------------|---------------|
|                            | <b>2016</b>                            | <b>2015</b>    | <b>2014</b>   |
|                            |  | <b>U.S. \$</b> |               |
| Salaries and benefits      | 17,150                                 | 18,455         | 2,872         |
| Professional fees          | 8,095                                  | 9,890          | 17,790        |
| Insurance                  | 3,183                                  | 2,545          | 2,191         |
| Rental and office expenses | 1,237                                  | 1,214          | 2,592         |
| Refreshments               | 794                                    | 1,945          | 797           |
| Other                      | 6,278                                  | 4,966          | 583           |
| <b>Total</b>               | <u>36,737</u>                          | <u>39,015</u>  | <u>26,825</u> |

**NOTE 12 - FINANCE INCOME AND EXPENSES:****Finance income:**

|                                    | <b>For the year ended December 31,</b> |                |              |
|------------------------------------|--|----------------|--------------|
|                                    | <b>2016</b>                            | <b>2015</b>    | <b>2014</b>  |
|                                    |  | <b>U.S. \$</b> |              |
| Interest received on bank deposits | -                                      | -              | 75           |
| Net change in embedded derivative  | -                                      | 1,706          | -            |
| Net foreign exchange gain          | -                                      | -              | 2,444        |
| <b>Total finance income</b>        | <u>-</u>                               | <u>1,706</u>   | <u>2,519</u> |

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - FINANCE INCOME AND EXPENSES (CONT.):**

**Finance expense:**

|  | For the year ended December 31, |               |               |
|--|---------------------------------|---------------|---------------|
|  | 2016                            | 2015          | 2014          |
|  | U.S. \$                         |               |               |
| Interest expenses on governmental liabilities on grants received | 37,812                          | 25,659        | 10,000        |
| Interest and bank charges  | 791                             | 618           | 1,063         |
| Net change in embedded derivative                                | 13,424                          | -             | -             |
| Interest expenses on loans                                       | 96,617                          | 14,742        | -             |
| Net foreign exchange loss  | 6,757                           | 2,551         | -             |
| <b>Total finance expense</b>                                     | <b>155,401</b>                  | <b>43,570</b> | <b>11,063</b> |

**NOTE 13 - TAXATION:**

**A. Israeli tax rates:**

Israeli corporate tax rates are 26.5% in 2014 and 2015 and 25% in 2016.

The Law for the Amendment to the Income Tax Ordinance, New Version, 1961(hereafter – "the Ordinance") (Amendment 216 to the Ordinance) (hereafter – "the amendment") was published in the official gazette in January 2016; the said law stipulated the reduction of the rate of corporate tax from 26.5% to 25% commencing January 1, 2016.

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.

Since the Company has carry forward losses and there is no tax assets or liability there is no impact of the tax rate change.

**B. Net operating losses carry forward:**

As of December 31, 2016, 2015 and 2014 the Company has estimated carry forward tax losses of approximately 692, 412 and 203 thousands U.S. dollars, respectively, which may be carried forward and offset against taxable income for an indefinite period in the future. Tax asset on the company's losses was not recognized since it is not probable that taxable profit will be available in the foreseen future.

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in Israel applied to profits for the year are as follows:



**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****NOTES TO FINANCIAL STATEMENTS****NOTE 13 - TAXATION (CONT.):****B. Net operating losses carry forward (Cont.):**

|  | <b>For the year ended December 31,</b> |             |             |
|--|--|-------------|-------------|
|  | <b>2016</b>                            | <b>2015</b> | <b>2014</b> |
|  | <b>U.S. \$</b>                         |             |             |
| Loss before taxes on income  | 477,966                                | 661,415     | 283,187     |
| Tax using the Company's domestic tax rate of 25%<br>(2014- 2015 26.5%) | 119,491                                | 175,275     | 75,044      |
| Unrecognized deferred tax assets                                       | (119,491)                              | (175,275)   | (74,597)    |
| Total taxes on income  | -                                      | -           | 447         |

**NOTE 14 - LOSS PER SHARE:****Net loss per share attributable to equity owners:**

|   | <b>For the year ended December 31,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2016</b>                            | <b>2015</b> | <b>2014</b> |
|   | <b>U.S. \$</b>                         |             |             |
| Net Loss used in basic EPS                          | 477,966                                | 661,415     | 283,187     |
| Weighted average number of shares used in basic EPS | 13,768,248                             | 12,741,417  | 12,741,417  |
| Basic net EPS (dollars)                             | (0.03)                                 | (0.05)      | (0.02)      |

(\*) On April 3, 2017, the company authorized and approved the reconstruction of the issued share capital of the Company by issuance of 14,743,731 Ordinary Shares as bonus shares to be pro-rata allocated to the holders of the Ordinary Shares of the Company in the same holding ratio. Issuance performed during April 2017.

**NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:**

The Company is expose to 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, trade payables and other liabilities. 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, currency risk and liquidity risk. The Company has no interest rate risk as the balances exposure to interest is minimal. The risk management policies employed by the Company to manage these risks discussed below.

**NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):****A. 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, which enables it to ensure the prompt collection of customers' balances. The Company's main financial assets are cash and cash equivalents 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:

|                                  | <b>As at December 31,</b> |                |                |
|----------------------------------|---------------------------|----------------|----------------|
|                                  | <b>2016</b>               | <b>2015</b>    | <b>2014</b>    |
|                                  |                           | <b>U.S. \$</b> |                |
| Cash at bank and restricted cash | 112,393                   | 58,166         | 140,879        |
| <b>Total</b>                     | <b>112,393</b>            | <b>58,166</b>  | <b>140,879</b> |

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 rising. The Company manages its capital structure through raising funds from shareholders of ordinary shares. The Company has net cash and cash equivalents at the balance sheet date of 102 (2015 - 48 and 2014 -130) thousands U.S. dollars, and a positive working capital. Accordingly, management does not believe that there are significant capital risks in the near future.

**B. Liquidity risks:**

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability, but can also increase the risk of loss. The Company has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities. The Company has no material obligation beyond one year (the liabilities for governmental institutes depends on achieving future revenues) and has a positive working capital and cash in bank to finance its working capital in the near future.

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.

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**

**NOTES TO FINANCIAL STATEMENTS**

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

**B. Liquidity risks (Cont.):**

**December 31, 2016:**

|   | Amortized cost |                    |              |              |              |              |             |
|---|----------------|--------------------|--------------|--------------|--------------|--------------|-------------|
|   | Book value     | Less than one year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Total       |
|   | U.S. \$        |                    |              |              |              |              |             |
| Other accounts payables                     | (24,126)       | (24,126)           | -            | -            | -            | -            | (24,126)    |
| Governmental liabilities on grants received | (538,798)      | (5,365)            | (45,924)     | (128,429)    | (313,954)    | (523,660)    | (1,017,332) |
| <b>Total</b>                                | (562,924)      | (29,491)           | (45,924)     | (128,429)    | (313,954)    | (523,660)    | (1,041,458) |

**December 31, 2015:**

|   | Amortized cost |                    |              |              |              |              |           |
|---|----------------|--------------------|--------------|--------------|--------------|--------------|-----------|
|   | Book value     | Less than one year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Total     |
|   | U.S. \$        |                    |              |              |              |              |           |
| Other accounts payables                     | (32,581)       | (32,581)           | -            | -            | -            | -            | (32,581)  |
| Convertible loans                           | (60,870)       | -                  | (60,870)     | -            | -            | -            | (60,870)  |
| Governmental liabilities on grants received | (364,336)      | (527)              | (5,365)      | (45,924)     | (128,429)    | (313,954)    | (494,199) |
| Total                                       | (457,787)      | (33,108)           | (66,235)     | (45,924)     | (128,429)    | (313,954)    | (587,650) |

|                     | Fair value |                    |              |              |              |              |          |
|---------------------|------------|--------------------|--------------|--------------|--------------|--------------|----------|
|                     | Book value | Less than one year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Total    |
|                     | U.S. \$    |                    |              |              |              |              |          |
| Embedded derivative | (95,786)   | -                  | (95,786)     | -            | -            | -            | (95,786) |
| <b>Total</b>        | (95,786)   | -                  | (95,786)     | -            | -            | -            | (95,786) |

**December 31, 2014:**

|  | Amortized cost |           |        |         |              |              |           |
|--|----------------|-----------|--------|---------|--------------|--------------|-----------|
|  |                | Less than | 1 to 2 | 2 to 3  | 3 to 4 years | 4 to 5 years | Total     |
|  |                | one year  | years  | years   |              |              |           |
|  |                |           |        |         | U.S. \$      |              |           |
| Other accounts payables                        | (24,126)       | (24,126)  | -      | -       | -            | -            | (24,126)  |
| Governmental liabilities<br>on grants received | (131,386)      | -         | (527)  | (5,365) | (45,924)     | (128,429)    | (180,245) |
| <b>Total</b>                                   | (155,512)      | (24,126)  | (527)  | (5,365) | (45,924)     | (128,429)    | (204,371) |

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.****NOTES TO FINANCIAL STATEMENTS****NOTE 15 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):****C. Fair value of financial assets and liabilities:**

The fair value of the Company's current financial assets and liabilities approximates their carrying amounts as their maturity date is less than 1 year and they do not bear a fixed interest rate. The Company measures at fair value on a recurring basis only the embedded derivative. the embedded derivative fair value measured according to level 2, based on the fair share price take into consideration the volatility, (For more information see note 6).

The fair value of governmental liabilities on grants received measured (for disclosure purposes only) according to level 3 (see note 7.C). the fair value as of December 2016, 2015 and 2014 is 488, 325 and 116 thousands U.S dollars respectively.

**NOTE 16 - RELATED PARTY 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 following transactions arose with related parties:**

|                          | <b>For the year ended December 31,</b> |                |                |
|--------------------------|--|----------------|----------------|
|                          | <b>2016</b>                            | <b>2015</b>    | <b>2014</b>    |
|                          | <b>U.S. \$</b>                         | <b>U.S. \$</b> | <b>U.S. \$</b> |
| Salaries to shareholders | 113,840                                | 212,673        | 165,754        |
| Share base payment       | -                                      | 159,944        | -              |
| Material costs           | 10,344                                 | 24,246         | 18,059         |

**Balances with related parties:**

|                             | <b>For the year ended December 31,</b> |                |                |
|-----------------------------|--|----------------|----------------|
|                             | <b>2016</b>                            | <b>2015</b>    | <b>2014</b>    |
|                             | <b>U.S. \$</b>                         | <b>U.S. \$</b> | <b>U.S. \$</b> |
| Trade payables              | 25,069                                 | 14,725         | -              |
| Loans from shareholders     | -                                      | 60,870         | -              |
| Embedded derivate           | -                                      | 95,786         | -              |
| Liabilities to shareholders | 2,758                                  | 2,337          | 342            |

**ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 17 - SUBSEQUENT EVENTS:**

- A. The company is in an IPO process of listing on the Australian Securities Exchange (ASX). As part of the said process the company raised after year end about 1 million dollar.
- B. On April 3, 2017, the company authorized and approved the reconstruction (hereafter: "the reconstruction") of the issued share capital of the Company by issuance of 14,743,731 Ordinary Shares as bonus shares to be pro-rata allocated to the holders of the Ordinary Shares of the Company so that the holding ratio remain the same as previous to the reconstruction. See also note 14.