Dear Shareholder

It has been just over 12 months since we listed on the Australian Securities Exchange on 7 December 2017, and I am delighted to report on the tremendous progress we have made over that time.

We are a business focused on developing and commercialising technologies that address severe weather conditions and improve crops yields. We have demonstrated that our Root Zone Temperature Optimisation Control System (RZTO) and Irrigation by Condensation (IBC) technologies add significant value to farmers spanning a diverse range of crops.

With orders of over A$470,000 (compared with zero sales in the year prior to listing), more than 30 installations globally, initial deployments conducted across 17 crops indoor and outdoor[1], sales in three jurisdictions, a patent granted, a new R&D hub established, and two new products launched, it has been a very exciting and successful year for the Company.

Entered the world's largest agricultural market

In late January 2018, we signed a landmark RTZO heating and cooling sales and installation agreement with leading international ag-tech integrator Dagan Agricultural Automation, for an agriculture project in China. This deal was a significant milestone as it allowed us to enter the world's largest agricultural market and form what we hope will be a long-term commercial relationship with Dagan, while we earned our first commercial revenues of US$257,000.

We further strengthened our engagement with Dagan in February, when we signed a binding exclusive distribution agreement for the China market, allowing Dagan to exclusively sell our RZTO technology for an initial three-year term throughout China, with a potential to extend for a further two years. Exclusivity is based on Dagan achieving a minimum of US$19 million in sales over five years.

Achieved initial RZTO sales for basil in Israel

Our strategy is focused on crops where we believe there are excellent underlying economics for our technologies and where there is a high chance of deriving sales following initial deployment programs.

In March we announced that, by heating the roots of basil plants in Winter, plant size increased 35% and crop yield increased 66%. While basil has traditionally been grown in summer months, our RZTO technology allowed farmers to extend their growth periods, with relatively low energy costs, while gaining premium prices for their produce.

[1] Lettuce, Chives, Cucumbers, Regular Tomatoes, Cherry tomatoes, flowers (3 breeds), Strawberries, Basil, Apricot, Zucchini, Pepper, Melons, Oriental leafy vegetables, Eggplants, Cannabis in a greenhouses, Cannabis in an open space, Lettuce in NFT facility

We were delighted that our RZTO technology was approved for a 30% subsidy for basil growers by the Israel Ministry of Agriculture and the Ministry of Finance. This was a significant achievement for Roots as it provided independent verification of the benefits and economic value our RZTO technology offers farmers and increased commercial opportunities with Israel's basil growers.

The subsidy lead to the sale of our first RZTO system for basil in Israel, following the successful initial deployment with the farmer. The order, valued at US$15,000 is expected to be the first of many, as Israeli basil growers take advantage of the government subsidy.

Entered the lucrative cannabis market in Israel and the US

In July we entered the Ag Tech sector serving the US Cannabis market with the first use of RZTO system technology, heating cannabis roots in part of a 30,000 square foot open field. The interim results were released in December, showing that heated plant weight increased by between 40% and 272% compared with the un-heated control crop.

The interim results exceeded expectations, particularly as they were achieved in an open field with heavy frost conditions. Roots' technology is the only way for growers to mitigate the risk of high-value crops in open fields, where plants are exposed to extreme external weather conditions.

We continued the momentum gained in the cannabis vertical by conducting a cooling proof of concept on cannabis in greenhouses in Israel. The interim results released in August were very promising, revealing a 25% increase in vegetative growth compared to uncooled control plants.

The interim results allowed us to secure our first RZTO sale of US$34,000 in the lucrative medical cannabis market.

The medicinal cannabis sector is expected to reach US$31 billion in sales globally over the next four years and RZTO technology allows growers to provide optimal conditions for cannabis plants, increasing profitability while reducing energy use.

Entered South Korea

In line with our focus on geographies where there are opportunities to sell our technologies in large markets, in August we announced our entry into South Korea with a RZTO reseller agreement with Korean agricultural production and distribution company, Ezfarm. In October we received our first order valued at US$16,000 for a RZTO system to be used with the Nutrient Film Technique (NTF) technology developed by Teshuva. While small, we believe this first order will be the first of many larger orders, as there has been great interest shown by Korean farming groups and the technology is now available locally.

RZTO's diverse applications

While we are headquartered in Israel, we are a company with global growth aspirations and we were pleased to enter the Australian market in January 2018, signing a distribution agreement with Adam Water Solutions, one of Western Australia's leading irrigation and Ag-tech integrators. As part of the agreement, we conducted a world first proof of concept of RZTO technology on young apricot trees in April at a facility North of Perth. However, we decided to put developments with this crop on hold to focus on applications with superior efficacy and growth opportunities.

In November we announced the successful RZTO cooling results on greenhouse-grown chives, showing a 257% increase in yield. In addition, the cooled chive plants continued to grow for 55 days, while the control crop virtually stopped growing after four weeks. Conducted during the Israeli summer, this result further demonstrated the effectiveness of our technology in increasing crop yields while extending growing cycles of plants that typically require cooler climates.

The Floriculture sector

In line with our approach of targeting high value crops, we conducted a successful RZTO cooling on Peruvian Lilies – the first use of RZTO technology on flowers. The floriculture production sector has a global value of US$55 billion. Results released in December showed that growth and cultivation of flowers with cooled roots commenced eight weeks earlier than control plants with non-cooled roots and the extended growing season also allowed the farmer to obtain a premium price of more than double the standard rate for out of season flowers. In Israel, the ability to harvest flowers year-round will double the farmer's yield and deliver a return on investment in a year. We expect the floriculture sector will provide substantial growth opportunities for us to deploy RZTO technology over the long term, given these substantial benefits for farmers.

Integrated our technology in greenhouses

We further showcased the breadth of our technology in April 2018, when we installed an advanced, hydroponic nutrient-temperature controlled greenhouse based on our RZTO technology, in collaboration with Teshuva Agricultural Projects (TAP). The joint development comprises of TAP's unique hydroponic greenhouse capabilities with our RZTO and cloud-based monitoring and control operating system, which is designed to be sold worldwide as a self-assembled, end-user product. The greenhouses are designed to deliver higher yields, significantly lower operating costs and ultimately increase profitability to farmers.

This collaboration allows Roots to enter the rapidly growing global advanced-hydroponics market. In July, we demonstrated robust lettuce growth and a 20 percent shorter growth cycle using our technology in combination with TAP's Nutrient Film Technique (NFT). This was a major breakthrough in greenhouse crop control, as we believe no other commercial company in the world is offering RZTO and NFT cooling systems for hydroponics. Until this point farmers had no other option to reduce heat load in greenhouses other than using large evaporative cooling systems with several fans, which are expensive to buy and operate and consume substantial energy. During December, the lettuce farmer ordered an additional system valued at more than US$11,000.

Established an off-grid IBC system

Shortly after listing in December 2017, we completed a world-first agronomical proof of concept of our closed-cycle Irrigation by Condensation (IBC) patented technology, where three major crops were grown with only condensation of the humidity in the air, a remarkable feat. It is important to note that the proof of concept took place during a rainless Summer and Autumn in central Israel and showed that the technology has the potential to provide food security and income to many farmers globally and help prevent hunger, poverty and migration due to a lack of irrigation water and access to food.

We continued to refine and enhance our IBC technology set, unveiling the world's first solar or wind-operated IBC system in May 2018, that works off the grid. The IBC off-grid system produces food crops using irrigation sourced only from humidity in the air and energy from the sun or wind. It follows the IBC proof of concept conducted late last year with electric power. The system is designed for growing high protein crops including beans and alfalfa.

We are now seeking technology partners to make the IBC off-grid system affordable to low income farmers and looking to collaborate with international and government institutions interested in marketing or subsidising this disruptive technology for low income level farmers. We believe there are significant opportunities for us to add value to farmers globally across several crops with this technology.

Research and Development hub established

Continuing our focus on innovation, we opened an advanced research and development hub in Israel during June, allowing us to fast-track commercialisation of our agri-tech solutions. The hub positions Roots as a serious global agri-tech innovator, allowing us to test a broader range of crops in controlled environments and demonstrate the diversity of crops that can benefit from our innovative solutions. A RZTO cooling pilot on Romaine lettuce was conducted at the hub between July and August, where we demonstrated a 132% increase in lettuce leaf weight and reduced the growing cycle by almost half, with the crop ready for harvesting in just 27 days. The November pilot on chives also took place at the hub, which serves as a demonstration farm for us to showcase our technology to visitors from Israel and abroad.

Patents filed to strengthen Roots' competitive position in key markets

We were granted a divisional patent for our IBC technology in India in September, a market which presents a large market opportunity for the technology, with the country currently suffering from the worst water crisis in its history. To capitalise on the patent and address the urgent need in India, we are developing a range of additional solar-operated and electric versions of our IBC systems tailored specifically for small holder units of up to a quarter acre as well as mid-size systems for larger plots.

We were also pleased to be granted an Australian patent for our 'smart pipe' system that provides targeted heat and cooling delivery to plant roots by the Australian Patent Office in November. The patent covers a key part of our RZTO technology and runs until April 2035.

It provides a strong reference for other countries such as Israel, China, United States, South Korea and Spain where Roots has also filed patents as part of local operations.

Granting of patents solidifies Roots' innovation and intellectual property leadership in root zone temperature management.

Enhanced team

Over the past 12 months, we were pleased to welcome several key people into our business. Dave Sharma, former Australian Ambassador to Israel, joined in February as a consultant to assist with development of international contracts and clients and increase awareness of our innovative technology in agronomy around the world. Mr Sharma has utilised his networks to enhance the business and gain sales traction in key markets.

As research and development forms the backbone of our business, having a strong group of opinion leaders is important. In April we formed a Scientific Advisory Board comprising internationally recognised and experienced researchers and opinion leaders, and were honoured to have Professors Raoul Bino, Haim Rabinowitch and Uzi Kafkafi join the SAB, bringing a breadth of experience in plant physiology, genetics, cell biology, soil and roots science.

Finally, we welcomed Ms Shalev-Flamm to our Board as a Non-executive Director in May, the Chief Financial Officer of Giron Development and Building Ltd, replacing Ms Tal Misch Vered who resigned due to other commitments.

Positive outlook for 2019

It has been a busy year for Roots, as we have begun to establish the business in key markets, with initial deployments clearly showcasing the benefits of our unique technologies, leading to sales revenue.

Looking ahead we expect a substantial increase in sales in 2019, as orders ramp up and additional agreements are signed. In addition, our strong sales and technology partnerships with both Dagan and Teshuva Agricultural Projects, and the Cannabis sector is expected to underpin our quick scaling up over the medium term.

Yours sincerely

Sharon Devir Boaz Wachtel