

STRAWBERRY FIELDS REIT LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016

STRAWBERRY FIELDS REIT LTD
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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
STRAWBERRY FIELDS REIT LTD**

We have audited the accompanying consolidated statements of financial position of Strawberry Fields REIT Ltd. (hereafter- the Company) as of December 31, 2016 and 2015, and the consolidated statements of the profit or loss and other comprehensive income, the changes in equity and the cash flows for each of the three years in the period ended on December 31, 2016. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973. These 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 Board of Directors and by management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations, the changes in equity and the cash flows for each of the three years, the latest of which ended on December 31, 2016, in conformity with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Brightman Almagor Zohar & Co
Certified Public Accountants
A Member of Deloitte Touche Tohmatsu

Tel Aviv, Israel, March 23, 2017

STRAWBERRY FIELDS REIT LTD
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	Note	December 31,	
		2016	2015
		<u>In \$ 0 0 0</u>	
<u>Current assets</u>			
Cash and cash equivalents		24,373	44,184
Designated deposits	4	9,724	4,223
Trade receivables-income receivable with respect to rental fees rising at a fixed rate	7	4,743	2,553
Other receivables and current assets	5.A.	3,991	1,164
		<u>42,831</u>	<u>52,124</u>
<u>Non- current assets</u>			
Investment property	7	629,782	365,798
Long-term receivables	5.B.	13,694	4,034
		<u>643,476</u>	<u>369,832</u>
Total assets		<u>686,307</u>	<u>421,956</u>
<u>Current liabilities</u>			
Current maturities of debentures	8.F.	13,080	-
Current maturities of loans from financial and other entities	8	7,689	5,189
Current maturities of liabilities with respect to leases classified as investment property	9	1,191	659
Other payables and current liabilities	10	16,854	6,132
		<u>38,814</u>	<u>11,980</u>
<u>Non- current liabilities</u>			
Debentures	8.F.	70,730	64,363
Loans from financial and other entities	8	348,728	181,827
Liabilities for leases classified as investment property	9	7,550	3,504
Loans from related parties	16	2,354	6,097
		<u>429,362</u>	<u>255,791</u>
<u>Equity</u>			
Share capital	13	-	-
Share premium		144,175	84,981
Retained earnings		73,956	69,204
Total equity		<u>218,131</u>	<u>154,185</u>
Total liabilities and equity		<u>686,307</u>	<u>421,956</u>

The attached notes are an integral part of the consolidated financial statements.

March 23, 2017

Date of approval of financial statements

Moshe Gobin
Chairman of the Board and joint CEO

Nahman Ein-gel
Joint CEO and in charge of financial matters

Michael Blisko
Director

STRAWBERRY FIELDS REIT LTD
CONSOLIDATED STATEMENTS OF THE PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME

	Note	For the year ended December 31		
		2016	2015	2014
		<u>In \$ 0 0 0</u>		
Rental revenues from investment property	15	47,767	31,296	27,257
Cost of renting and operating properties	12B	(2,763)	(2,433)	(2,530)
Income from rental and operation of properties		45,004	28,863	24,727
Adjustment of fair value of investment property	7	(9,239)	12,676	48,100
General and administrative expenses	12B.	(835)	(335)	(300)
		34,930	41,204	72,527
Financing expenses		(22,126)	(15,739)	(12,259)
Financing income		548	252	126
Net financing expenses	17	(21,578)	(15,487)	(12,133)
Net income for the year		13,352	25,717	60,394
Comprehensive income		13,352	25,717	60,394

The attached notes are an integral part of the consolidated financial statements

STRAWBERRY FIELDS REIT LTD
CONSOLIDATED STATEMENTS OF THE CHANGES IN EQUITY

	<u>Share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>In \$ 0 0 0</u>			
Balance as of January 1, 2014	-	62,567	8,706	71,273
Comprehensive income	-	-	60,394	60,394
Distributions to shareholders	-	-	(7,627)	(7,627)
Capital reserve, including with respect to receipt of services from controlling shareholders	-	845	-	845
Investments by shareholders	-	3,276	-	3,276
Balance as of December 31, 2014	-	66,688	61,473	128,161
Comprehensive income	-	-	25,717	25,717
Distributions to shareholders	-	-	(17,986)	(17,986)
Capital reserve, including with respect to receipt of services from controlling shareholders	-	689	-	689
Investments by shareholders	-	17,604	-	17,604
Balance as of December 31, 2015	-	84,981	69,204	154,185
Comprehensive income	-	-	13,352	13,352
Dividends paid	-	-	(8,600)	(8,600)
Capital reserve with respect to acquisition of properties from controlling shareholders	-	59,194	-	59,194
Balance as of December 31, 2016	-	144,175	73,956	218,131

The attached notes are an integral part of the consolidated financial statements

STRAWBERRY FIELDS REIT LTD

CONSOLIDATED STATEMENTS OF THE CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	In \$ 0 0 0		
<u>CASH FLOWS - OPERATING ACTIVITIES</u>			
Net income for the year	13,352	25,717	60,394
Adjustments necessary to present cash flows from current operations			
Expenses (income) not involving cash flows:			
Adjustments of fair value of investment property	9,239	(12,676)	(48,100)
Capital reserve, including receipt of services from controlling shareholders	-	689	845
Exchange rate differences with respect to debentures	812	(365)	-
Changes in asset and liability items:			
Change in trade receivables- income receivable with respect to rental fees rising at a fixed rate	(4,661)	(3,960)	-
Decrease (increase) in other receivables and current assets	(2,737)	(675)	190
Decrease in other liabilities	-	(380)	-
Increase (decrease) in other payables and current liabilities	4,800	3,638	188
Net cash provided by current operations	20,805	11,988	13,517
<u>CASH FLOWS - INVESTING ACTIVITIES</u>			
Acquisitions of investment property	(75,590)	(59,965)	(18,750)
Increase in cash with respect to initial consolidation of properties companies	1,344	-	-
Repayment of other liabilities in connection with investment property	-	-	(1,750)
Collecting (providing) loans to related parties	-	1,670	(1,670)
Repayment (investment)- designated deposits, net	(6,330)	(2,645)	(2,356)
Net cash used for investing activities	(80,576)	(60,940)	(24,526)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>			
Net proceeds from issuance of debentures	18,635	64,728	-
Receipt of loans from financial entities	100,904	59,095	62,458
Repayment of loans from financial entities	(60,053)	(9,366)	(19,247)
Receipt of loans from others	-	3,604	7,150
Repayment of loans from others	(6,113)	(25,548)	(4,179)
Payment of leasing liabilities	(217)	(6,892)	(27,637)
Receipt of loans from related parties	-	7,608	10
Repayment of loans received from related parties	(4,598)	(2,216)	(2,700)
Dividends paid	(8,600)	-	-
Distributions to shareholders	-	(17,986)	(7,627)
Investments by shareholders	-	17,604	3,276
Net cash provided by financing activities	39,958	90,631	11,504
Increase (decrease) in cash and cash equivalents	(19,811)	41,679	495
Balance of cash and cash equivalents at beginning of year	44,184	2,505	2,010
Balance of cash and cash equivalents at end of year	24,373	44,184	2,505
Non- cash transactions			
Shareholders' investments by way of assumption of Company liabilities to others	-	-	-
Additional information:			
Interest paid (including refinancing costs)	17,256	13,678	12,259

The attached notes are an integral part of the consolidated financial statements

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

A. Pertaining to the Company and its operations

Strawberry Fields REIT Ltd. (hereafter- “the Company”) was established and incorporated in February 2015 as a private company limited in shares, according the Business Companies Act of the British Virgin Islands (BVI Companies Act, 2004). In November 2015, the Company completed an offering of debentures (Series A) with par value of NIS 265.3 million, registered for trading on the Tel Aviv Stock Exchange Ltd. In September 2016, the Company completed an extension of the debentures series in the context of which the Company issued an additional NIS 70.0 million of par value and raised a net amount of NIS 70.8 million. For additional information regarding the debentures, see Note 8.F.

Concurrently with completion of registration of these debentures, the controlling shareholders of the Company transferred their holdings in entities engaged in renting and leasing buildings used as nursing homes, which are investment property of the Company (see Note 7), to the Company against the allotment of Company shares, in a manner that, subsequent to the allotment, the controlling shareholders hold 100% of the shares of the Company. In addition, the loans from financial institutions and the lease obligations which are financing the investments in that investment property were transferred to the Company (see Notes 8 and 9). As of December 31, 2016, the Company, through the companies transferred to it, directs these operations in various states in the United States, primarily Illinois, Indiana, Ohio, Michigan, Tennessee, Kentucky, Texas and Oklahoma.

Transfer of the properties and the companies holding them to the Company

Since the entities holding the properties that were transferred to the Company in November 2015 are controlled, both prior to their transfer and subsequent to it, by the same controlling shareholders, the acquisition of the holdings in the entities by the Company does not represent a business combination as defined in IFRS 3. Accordingly, the Company reflects the acquisition of the transferred entities according to the “as pooling of interests method”. Pursuant to this method, the consolidated financial statements of the Company have been prepared in a manner reflecting the acquisition of the entities transferred from the controlling shareholders as it were carried out at the beginning of the earliest period presented in the consolidated financial statements (January 1, 2014), based on the rate of their holdings in these entities on that date. With respect to entities established after January 1, 2014, the consolidated financial statements reflect the assets, liabilities and operations of those entities commencing from the date of their establishment. Nursing homes in which the transferred entities hold purchase options, exercised during the periods presented in the financial statements, with those entities becoming owners of those nursing homes, are presented, commencing from January 1, 2014, as properties under financing leases, this under the assumption that the options had incorporated a bargain price.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (CONT.)

B. Definitions:

In these financial statements:

The Company	-	Strawberry Fields REIT Ltd.
The parent company	-	Strawberry Fields REIT LLC.
The Group	-	the Company and its subsidiaries.
Subsidiary companies	-	companies which the Company controls (as defined in IFRS 10), and whose reports are consolidated with the reports of the Company.
Interested parties and controlling shareholders	-	as defined in the Securities Regulations (Annual Financial Statements) -2010
Related parties	-	as defined in IAS 24 (amended)
Dollar; \$	-	the United States dollar

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis for presentation of financial statements

(1) Measurement basis

The financial statements of the Company have been presented on the cost basis, except for investment property and hedging transactions on the debentures (Series A), which are measured at fair value.

The Company elected to present the statement of comprehensive income according to the activity characteristics method.

(2) Preparation format of the financial statements

These financial statements have been prepared according to the International Financial Reporting Standards (hereafter-the IFRS), which include:

- a. The IFRS.
- b. The International Accounting Standards (IAS).
- c. Interpretations of the IFRS (IFRIC) and the IAS (SIC).

Moreover, the financial statements have been prepared pursuant to the provisions of the Securities Regulations (Annual Financial Statements)-2010.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Principal considerations, estimates and assumptions in preparation of the financial statements

(1) Principal considerations in preparation of the financial statements

Critical accounting considerations

When implementing accounting policies assumed by the Group, Company management is required, in certain cases, to initiate broad accounting judgment. This judgment relates mostly to adoption of the most proper accounting principle in the circumstances, or to providing an acceptable interpretation of an accounting principle which does not fully or explicitly address specific circumstances. A critical accounting consideration is one whose results could materially influence the financial position and operating results of the Company as reflected in its consolidated financial statements, and which, under other basic assumptions, could lead to an accounting result substantially different from that presented in them. This accounting judgment naturally is partially subjective. Nevertheless, when activating critical accounting judgment, the management of the Company relies on its understanding of the accounting principles applicable to its operations, and, in addition, to the extent that it is relevant, the Company makes a practice of consulting with external experts in the area.

In the course of implementing the principal accounting policies in the financial statements, the Company activates judgments and takes into account the considerations with regard to the following matters, which have a very material effect on the amounts recognized in the financial statements:

1.1 Classification of leases as investment property

The management of the Company activates accounting judgment when it comes to specify the character of the rental agreements with the tenants of the nursing homes, whether they are leases, operating or financing, treated as investment property, in the sense of IAS 40 (see paragraph 2.H. below). In the context of activating accounting judgment, the Company's management evaluates the lease terms of the nursing homes, and among other things, the length of the lease period, the intentions of management regarding the subject property, the existence of an option for the extension of the lease period, the existence of an option to purchase the property and the extent that the option is a bargain price.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Principal considerations, estimates and assumptions in preparation of the financial statements

(2) Estimates and assumptions in preparation of the financial statements

At the time of preparing the financial statements, the Company's management must use assessments or estimates for transactions or matters affecting the amounts presented in the financial statements, whose final effect on the financial statements cannot be accurately determined when they are prepared. The principal basis for determining the quantitative value of these assessments is assumptions which the Company's management decides to adopt, considering the circumstances surrounding the assessment, as well as the best information that it possesses on the date of preparation. By the very nature of things, since these assessments and estimates sometimes result from the application of judgment in an environment of very substantial uncertainty, changes in the basic assumptions due to changes not necessarily dependent on the management of the Company, and additional future data not in the possession of the Company on the date of the assessment, could at times lead to very substantial changes in the quantitative value of the assessment, and, therefore, also affect the Company's financial position and operating results.

Therefore, even if assessments or estimates are made according to the best judgment of the management, based on its past experience in consideration of the unique factors in the circumstances of each case, and to the extent it is relevant, also in reliance on outside experts, the ultimate quantitative influence of transactions or matters requiring approximation may become evident only when these transactions or matters reach their conclusion. Accordingly, the actual results at the time that the consequences of the event requiring the determination of assessments and estimates are finally made clear, could be different, at times substantially so, from these assessments and estimates at the time that they are initially determined and revised over time.

The estimates and the assumptions on which they are based are examined by management on a current basis and are updated following information coming to the awareness of the management or an event that occurs after the last date on which the estimate was determined, and which was not in its possession in a prior period in which the estimate was made or most recently examined. Changes to accounting estimates are recognized in the period in which the change in estimate was made, or in future periods, if the ramifications of the change affect both the current period and future periods.

The following are the principal assumptions that were made in the financial statements in connection with uncertainty as of the reporting date, and critical estimates calculated by the Group, and as to which a material change in estimates and assumptions could change the value of assets and liabilities in the financial statements for the following reporting period:

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Principal considerations, estimates and assumptions in preparation of the financial statements (cont.)

(2) Estimates and assumptions in preparation of the financial statements (cont.)

2.1 Investment property

The fair value of investment property was determined pursuant to the provisions of IAS-40 and IFRS-13. According to these standards, the fair value of investment property is the price which would have been received as of the date of the statement of financial position from the sale of the property in an ordinary transaction between participants in the market, acting in a well-informed manner, and in a transaction that is not influenced by special relationships between the parties. The fair value was determined disregarding the transaction costs which might be incurred at the time of sale or realization of the investment property in another manner.

In order to determine the estimate of fair value of investment property, whether owned or held under financing or operating lease, management of the Company is assisted by outside real estate appraisers and relies, primarily, on appraisals performed by outside appraisers. Company management customarily determines the fair value according to accepted valuation methods for real estate properties, mostly by the cash flow capitalization approach (Income Capitalization Approach combined with Discounted Cash Flows). When use is made of the cash flow capitalization approach, the Discount Rate and yield rate (Cap Rate) determined in connection with the net cash flows anticipated to be derived from the property, have decisive significance on its fair value. In a similar manner, the discount rate which discounts the minimal lease fees of leases classified as investment property has decisive significance on the fair value of the investment property, the relevant leasing liability and financing expenses.

Determining the fair value of nursing homes primarily takes into account the rental fees anticipated to be received from the lessees pursuant to the rental contracts in force. In addition, inter alia and to the extent relevant, what is taken into account are the location of the nursing home, its physical condition and age, the specialized equipment and fixed assets for the operation of the nursing home, the mix of the patients, the mix of the anticipated sources of revenue from the nursing home (including the price lists of the welfare institutions), prices for similar nursing homes, the adjustments required to existing prices, the anticipated average price per bed, the actual and forecasted extent of occupancy of the nursing home, the measure of the equivalence of comparable nursing homes to the nursing home whose fair value the Group is estimating, its operational costs and the net anticipated cash flows to be derived from the nursing home. A change in the value of any or all of these elements, and principally in the rental fees anticipated to be received from the lessees, could materially affect the fair value of the property, as estimated by the Group's management.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Principal considerations, estimates and assumptions in preparation of the financial statements (cont.)

(2) Estimates and assumptions in preparation of the financial statements (cont.)

2.1 Investment property (cont.)

The Company endeavors to determine an objective fair value to the extent possible, but, nevertheless, the process of approximating the fair value of investment property also includes subjective elements, rooted, inter alia, in the past experience of the Company's management, and its understanding of what is anticipated to develop and occur in the investment property market as of the date on which the estimate of the fair value is determined. In view of this, and of what was said in the foregoing paragraph, the determination of the fair value of the Group's investment property demands judgment, and changes in assumptions used for the determination of the fair value may materially influence the fair value of the investment property, as it appears in the financial statements.

C. Consolidated financial statements:

The consolidated financial statements include the financial statements of companies that the Company controls (subsidiaries). Controls exists when a company has power to influence the investee entity, its exposure or rights to varying yields, due to its involvement with the investee entity, as well as the ability to use its power in order to affect the amounts of the yields to be derived from the investee entity. Consolidation of financial statements is carried out commencing from the date of achieving control and until the date that control terminates.

Material reciprocal balances and profits and losses resulting from transactions between the Company and the subsidiaries are fully eliminated in the consolidated financial statements.

D. Operating turnover:

The operating turnover of the Company is one year.

E. Functional currency and presentation currency

The financial statements of each of the Group companies are prepared in the currency of the principal economic environment in which it operates (hereafter- "the functional currency"). The functional and presentation currency of the Group is the US dollar which is also the functional currency of each one of its subsidiaries.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Cash and cash equivalents; designated deposits

Cash and cash equivalents- Cash and cash equivalents include cash which may be realized immediately, deposits which may be withdrawn immediately and fixed period deposits unrestricted as to use, the redemption date of which does not exceed three months from the date of investment.

Designated deposits-Deposits held in trust, whose use is restricted mainly to the payment of interest on the debentures (Series A), and to enhancement and maintenance of investment property and payments of taxes and insurance, are classified by the Group as designated deposits.

G. Financial instruments

(1) Financial assets

Investments in financial assets are recorded in the statement of financial position when the Group becomes a party to an agreement pursuant to whose terms it is entitled to receive the financial asset. Investments in financial assets to which IAS 39 applies are initially recognized at fair value with the addition of directly attributed transaction costs, except for investments in financial assets measured at fair value through profit or loss, where the transaction costs are recorded to profit or loss.

The Group's financial assets are classified to the category of "loans and receivables". The classification to categories depends on the nature and purpose of owning the held financial asset, and it is determined on the date of initial recognition of the financial asset, or in succeeding reporting periods, if the financial assets are to be reclassified to another category

(2) Financial liabilities

Financial liabilities at amortized cost

Loans, debentures and other interest bearing liabilities are initially measured at fair value, net of directly attributed transaction costs, should there be any (for example, loan and debenture raising costs). Subsequent to initial recognition, loans, including debentures, are presented according to their terms at amortized cost, using the effective interest rate method, which also takes directly attributed transaction costs into account. Short term credit (such as other payables and current liabilities) is presented according to its terms, generally at its nominal value. Gains or losses are recognized in profit or loss as the result of methodical amortization by the effective interest method, upon reduction of the financial liability.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

H. Investment property

Investment property is real estate (land or building, or both of them) held by the owners or by a lessee in a financial lease, in order to generate rental income or value appreciation, or both, and not for use in production or the supply of goods or services or for purposes of administration or sale in the ordinary course of business. Real estate rights held by the Group under an operating lease which would otherwise have met the definition of investment property are also classified and treated as investment property.

Advances paid on account of the acquisition of investment property are also presented under the investment property section.

Investment property is initially recognized at acquisition cost, which includes directly attributed acquisition costs. Real estate rights held by the Company under a financing or operating lease, which are classified as investment property, are measured initially at the lower of the fair value of the leased property and the present value of the minimum lease payments. To the extent that the Company is provided with an option to purchase the leased property, and on the date of initial recognition of those rights as investment property, the management of the Company estimates that it is reasonably certain that the option will be exercised, the present value of the exercise price of the option is added to the present value of the minimum lease fees. The fair value of the property is determined according to what was stated in paragraph B.(2).1.2 above. The capitalization rate used for the calculation of the present value of the minimum lease payments and the exercise price of the option is the interest rate integrated into a lease, as long as it is practical to determine it, and, if it is impractical to determine it, the Company uses its own incremental interest rate, after consulting with outside appraisers.

After initial recognition, investment property is measured at its fair value, reflecting market conditions on the reporting date. Income receivable for rental fees which rise at a fixed rate is deducted from the fair value. Gains or losses derived from changes in the fair value of the investment property are recorded to profit or loss on the date they occur. Investment property is not depreciated in a methodical method.

Investment property is removed when it is realized or when its use ceases, and future economic benefits from realization are not anticipated. The difference between the net proceeds from realizing the property and the balance in the financial statements, including that in interim financial statements, is recognized as gain or loss for the period that the property is removed

For purposes of determining fair value of investment property, the Group generally relies on evaluations performed by outside appraisers with expertise in evaluations of real estate and who possess the necessary knowledge and experience. See also paragraph B.(2).1.2.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. Liability with respect to financing/operating lease

A liability with respect to real estate rights, held by the Group under a financing or operating lease, is recorded initially at the same amount that the lease rights are recorded as investment property, as detailed in paragraph H above. Subsequent to initial recognition, this liability is amortized according to the effective interest method, by which the minimum lease payments (including those paid during periods of extension options, as long as it is reasonable that they will be extended) are deducted from the lease liability and the financing expenses which they comprise are allocated to each of the periods during the lease period. On the date that the Company purchases the property that is the subject of the lease agreement and becomes its owner, the balance of the lease obligation as of that date, after deducting the liabilities that the Company has accepted to purchase the property, is recorded to financing expenses.

J. Guarantees from controlling shareholders

Personal guarantees provided by controlling shareholders of the Company, in connection with loans taken by the Group, as security for repayment of the liability of the borrower vis-à-vis the lender, are not separated from the loan.

K. Taxes on income

The Company does not present taxes on income (current and deferred) in the financial statements since the Company and all of its subsidiaries are transparent entities for income tax purposes, i.e., the Company is not assessed for tax purposes and the profits or losses for tax purposes are transferred to the Company's shareholders, and the tax liability, if there is any, applies to them.

L. Provisions:

A provision pursuant to IAS 37 is recognized when the Group has a current obligation (legal or implied) as a result of a past event, as to which the utilization of economic resources is probable to liquidate the obligation, and they can be reliably estimated. In the case that the effect is material, the provisions are measured by the capitalization of anticipated future cash flows, while using a pre-tax interest rate reflecting market estimates of the time value of money, and in certain cases, also of the specific risks connected with the obligation.

M. Revenues from rental fees

Revenue is measured according to the fair value of the consideration received and/or the consideration which the Group is entitled to receive with respect to the revenue from renting its properties during the regular course of business.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. Revenues from rental fees (cont.)

Revenues from rental of investment property are recorded to the statement of profit and loss when accrued, over the rental period. For rental contracts in which the rental fees rise at a fixed rate over the rental period, the effect of the fixed increase in rental fees is recorded, if material, to the statement of profit and loss in an equal manner over the rental period, including the lessee's extension periods, as long as it is anticipated that they will be extended. Amounts recorded as above to the balance of trade receivables-income receivable with respect to rental contracts, which were cancelled prior to reaching the end of the rental period, are charged in the statements of profit and loss, to the section on increase in value of investment property.

The revenues are recorded in the financial statements for as long as their collection is estimated to be probable as of the date of recognition and when the amount of revenues is measurable on a reliable basis.

See Note 3.A. below regarding the anticipated implications of the becoming effective of IFRS-15, Revenue Recognition from Contracts with Customers.

N. Measurement of fair value

Fair value is the price which would have been received from the sale of an asset or the price which would have been paid to transfer a liability in an ordinary transaction between market participants as of the measurement date.

Fair value measurement is based on the assumption that the transaction takes place in the major market for the asset or the liability, or, in the absence of a major market, in the most advantageous market.

The fair value of an asset or liability is measured by using assumptions that market participants would use at the time of costing the asset or liability, on the assumption that market participants act for the benefit of their economic interests.

Measurement of a non-financial asset considers the ability of the market participant to generate economic gains by using the asset most beneficially or by selling it to another market participant who will use the asset most beneficially.

The Group uses valuation techniques conforming to the existing circumstances and for which there are adequate accessible data in order to measure fair value, while maximizing use of the relevant data that can be anticipated and minimizing use of the data that cannot be anticipated.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

O. Grouping of segments

The Company operates in one sector that includes nursing homes, a minority of which also include long-term acute care hospitals. While each of the rented nursing homes achieves the definition of a segment, since it is evaluated separately by the chief operating decision maker, in the assessment of the Company's management, all of the nursing homes may be grouped into one reportable segment, since the nursing homes are similar in their economic and operational characteristics. These characteristics include, primarily, identical exposure to U.S. Federal budgets and similar exposure to State budgets, which represent the principal source of the revenues of the lessees of the nursing homes, the source for payment of rental fees to the Group. Furthermore, the manner by which the Company offers its properties for rental on the market, as well as the manner by which the appropriate rental fees that the lessee must pay to the Company are determined, are similar, and are not contingent on the geographic-state location of the nursing home. Moreover, most of the nursing homes of the Company are organized under master leases applying in practice to a number of nursing homes.

NOTE 3 - NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED

A. Standards, interpretations and amendment to standards issued and not effective, not adopted in early adoption by the Group, which are anticipated to or could affect future periods

- **IFRS 9 "Financial Instruments"**

The new standard itemizes the classification and measurement provisions regarding financial instruments.

Financial assets

The standard determines, inter alia, to treat financial assets as follows:

- Debt instruments will be classified and measured after initial recognition according to amortized cost or at fair value through profit or loss. Determination of the measurement model will consider the business model of the entity in connection with management of financial assets and in accordance with the characteristics of the anticipated cash flows derived from those financial assets.
- A debt instrument which according to the criteria is measured at amortized cost may be designated to fair value through profit or loss only if the designation cancels inconsistency in recognition and measurement that would have been created had the asset been measured at amortized cost.
- Equity instruments will be measured at fair value through profit or loss.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED (CONT.)

A. Standards, interpretations and amendment to standards issued and not effective, not adopted in early adoption by the Group, which are anticipated to or could affect future periods (cont.)

- **IFRS 9 “Financial Instruments” (cont.)**

Financial assets (cont.)

- Equity instruments may be designated to fair value upon initial recognition with the gains or losses recorded to other comprehensive income. Instruments so designated will no longer be subject to evaluation of impairment, and gain or loss relevant to them will not be transferred to profit and loss, including at the time of realization.
- Embedded derivatives in financial assets will not be separated from the host contract. Instead, hybrid contracts will be measured in their entirety at amortized cost or fair value, pursuant to the criteria of the business model and forecasted cash flows.
- Debt instruments will be reclassified from amortized cost to fair value and vice versa only when the entity changes the business model for management of financial assets.
- Investments in equity instruments with no quoted price in an active market (including derivatives on these instruments), will always be measured at fair value. Nevertheless, the standard states that, in certain circumstances, cost might be a proper estimate of fair value.

Financial liabilities

The standard also determines the following provisions with regard to financial liabilities:

- The change in fair value of a designated financial liability at the time of initial recognition as fair value through profit or loss, which is attributed to changes in the credit risk of the liability, will be recorded directly to other comprehensive income, except if this entry creates or increases an accounting mismatch.
- When the financial liability is paid or settled, amounts recorded to other comprehensive income will not be classified to profit or loss.
- All of the derivatives, whether assets or liabilities, will be measured at fair value through profit and loss, including a derivative financial instrument representing a liability connected with an unquoted equity instrument whose fair value cannot be reliably measured.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED (CONT.)

A. Standards, interpretations and amendment to standards issued and not effective, not adopted in early adoption by the Group, which are anticipated to or could affect future periods (cont.)

- **IFRS 9 “Financial Instruments” (cont.)**

The mandatory starting date of the standard would not be earlier than annual reporting periods commencing on January 1, 2018.

At this stage, in view of the Company’s policies as of the date of issuance of these financial statements, and in the estimation of management of the Company, implementation of the standard is not expected to materially impact its financial position and operating results.

- **IFRS 15, Recognition of Revenues from Contracts with Customers**

The new standard determines a comprehensive and uniform mechanism for arranging the accounting treatment of revenues derived from contracts with customers. The standard replaces IAS 18 "Revenues", IAS 11 "Construction Contracts" and related interpretations. The core principle of the standard is that revenue recognition should reflect the transfer of the merchandise or services to customers in an amount representative of economic benefits expected to be received by the entity in consideration for them. For this purpose, the standard stipulates that revenue recognition will occur when the entity transfers the merchandise and/or services itemized in the contract to the customer and the customer achieves control over that merchandise or services.

The standard will become binding compulsorily for annual reporting periods commencing on January 1, 2018 or thereafter. Early adoption is permitted. The standard will generally be implemented retroactively, but entities will be permitted to elect certain adjustments in the framework of the transitional provisions of the standard so as to apply it to previous reporting periods.

Since the standard excludes rental income from its application, it is not anticipated to have any effect on the consolidated financial statements.

- **Amendment to IAS 7 Statement of Cash Flows regarding disclosures concerning changes in liabilities derived from financing activities**

The amendment stipulates that it is necessary to give disclosure of information which will permit users of the financial statements to evaluate the changes in liabilities which are derived from financing activities, both changes involving cash flows and changes not involving cash flows.

The amendment will be implemented on a prospective basis for annual reporting periods commencing on January 1, 2017 or thereafter. Early implementation is possible. On the date of the initial implementation of the amendment, it is not necessary to present comparative information.

The management of the Company estimates that the effect of implementation of the amendment on the financial statements is not expected to be material.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - DESIGNATED DEPOSITS

Composition:

	As of December 31,	
	2016	2015
	In \$ 0 0 0	
Deposits designated for tax and insurance payments with respect to investment property (by force of HUD loans, see Note 8.C.)	4,007	1,540
Deposits designated for payments of interest with respect to debentures	5,681	2,683
Other	36	-
	9,724	4,223

See Note 12.C regarding liens

NOTE 5 - OTHER RECEIVABLES AND CURRENT ASSETS; LONG TERM RECEIVABLES

A. Other receivables and current assets

Composition:

	As of December 31,	
	2016	2015
	In \$ 0 0 0	
Income receivable and receivables with respect to properties in Texas and Oklahoma (see Note 7.J.)	2,589	-
Related parties (1)	1,000	322
Tenants	350	277
Other	32	565
	3,991	1,164

(1) As of December 31, 2016, the balance represents a balance vis-à-vis the parent company which was fully repaid after the balance sheet date.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - OTHER RECEIVABLES AND CURRENT ASSETS; LONG TERM RECEIVABLES (CONT..)

B. Long-term receivables

Composition:

	As of December 31,	
	2 0 1 6	2 0 1 5
	In \$ 0 0 0	
Deposits designated in connection with leasehold improvements (1)	10,047	4,005
Trade receivables-income receivable with respect to rental fees rising at a fixed rate	3,637	-
Other	10	29
	13,694	4,034

(1) By force of HUD loans, see Note 8.C.

NOTE 6 - INVESTMENTS IN SUBSIDIARIES

In general, each nursing home of the Group is administered by a separate company. See the appendix to the consolidated financial statements with regard to all Group companies engaged in holding and renting investment property (principally nursing homes) and which are held at the rate of 100% by the Company, the majority directly and a minority, indirectly.

NOTE 7 - INVESTMENT PROPERTY

As of December 31, 2016, the Group has 56 properties serving as nursing homes in the following states: Illinois (25 properties), Indiana (14 properties), Michigan (one property), Ohio (4 properties), Texas (3 properties), Oklahoma (one property), Tennessee (7 properties) and Kentucky (one property). Four of these properties also include Long-Term Acute Care Hospitals. Additionally, the Company has a building in Indiana serving as doctors' clinics with fair value as of December 31, 2016 amounting to \$ 4.7 million. In February 2016, the Company decided to give up a non-material nursing home in the State of Illinois, and to return its operating license to the state.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INVESTMENT PROPERTY (CONT.)

A. Composition and movement:

	<u>As of December 31,</u>	
	<u>2 0 1 6</u>	<u>2 0 1 5</u>
	<u>In \$</u>	<u>0 0 0</u>
Balance as of beginning of year	368,351	301,250
Changes during the year		
Acquisition of properties	75,090	59,965
Property under lease agreements whose lease ended	-	(9,500)
Transfer of properties by the parent company	198,800	-
Advances on account of acquisition of investment property	500	-
Increase (decrease) in value of investment property (1)	<u>(4,578)</u>	<u>16,636</u>
Fair value of investment property as of December 31	<u>638,163</u>	<u>368,351</u>
Less trade receivables-income receivable with respect to rental fees exceeding a fixed rate (*)		
Presented with current assets	(4,743)	(2,553)
Presented with non-current assets	<u>(3,637)</u>	<u>-</u>
Balance as of December 31	<u>629,782</u>	<u>365,798</u>

(*) The balance as of December 31, 2016 includes an amount of \$1,159 thousand that is related to the Texas lease where the tenant has cash flow problems (see 7 J)

	<u>As of December 31,</u>	
	<u>2 0 1 6</u>	<u>2 0 1 5</u>
	<u>In \$</u>	<u>0 0 0</u>
Movement in trade receivables- income receivable with respect to rental fees exceeding a fixed rate		
Opening balance	2,553	4,341
Additions with respect to transfer of assets from the parent company (see C below)	1,166	-
Additions during the year	4,661	2,172
Adjustments for amounts that were cancelled (1)	<u>-</u>	<u>(3,960)</u>
Closing balance	<u>8,380</u>	<u>2,553</u>
(1) Increase in value of investment property, net	<u>(9,239)</u>	<u>12,676</u>

B. Description of land rights

Most of the investment property as of December 31, 2016 (97%) is owned by the Company and a minority is held under operating lease.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C. Transactions connected with investment property

2016

Transfer of properties from the parent company

On March 31, 2016, the Company and the parent company entered into an agreement according to which the parent company, on April 1, 2016, transferred all of the rights in 10 LLC entities that hold rights to 10 yielding properties, serving as medical institutions, to the Company, against the allotment of 100 shares of the Company to the parent company. The properties are properties which were owned by the parent company prior to the issuance of debentures (Series A) of the Company.

The transfer of the rights in the property companies was treated in these financial statements as an acquisition of a group of assets and liabilities, after the Board of Directors and management exercised their judgment, based upon the provisions of the relevant standards and the terms of the acquisition agreement and the rights which were transferred; this unlike a business combination within the meaning of IFRS 3. The above accounting treatment is based upon the following principal considerations: (1) the Company has the ability to manage the acquired properties, should their transfer not include a management system, procedures or personnel; (2) the transferred properties do not represent an intertwined alignment of properties, but a collection of independent properties among which there is no dependence or cross relations

C. Transactions connected with investment property

The fair value of the properties on the date they were transferred, based on evaluations performed for the properties by an external appraiser, stands at an amount of \$ 198.8 million. The properties were transferred to the Company on a non-recourse basis with respect to loans taken by the property companies in connection with the properties. The loans undertaken by the property companies with various financing bodies include recourse to the borrowing companies. The fair value of the loans and financing lease obligations undertaken by the property companies with respect to the properties stands at \$ 139.7 million and the average effective interest rate for these loans is approximately 3.76%. The difference between the fair value of the transferred properties and the fair value of the relevant liabilities as of the transfer date in an amount of \$ 59.2 million was recorded to a capital reserve from a transaction with controlling shareholders.

The guarantees provided by the controlling shareholders of the Company and the parent company in connection with the property companies remained in effect. Part of the loans given to the property companies in connection with the properties are backed by a guarantee of HUD, which gave its consent for the transfer of the rights to the properties to the Company.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INVESTMENT PROPERTY (CONT.)

C. Transactions connected with investment property (cont)

The properties are being rented by the property companies to 8 lessees, related parties to the controlling shareholders of the Company, which operate and manage the properties. The rental agreements are of the Triple net type, include acceptable provisions as is customary in rental agreements of this type and they are for periods of approximately 10 or more years, with the addition of options for extension of the rental agreements for between 10 to 20 years. The annual rental fees pursuant to the rental agreements, most of which became effective in proximity to the date of the undertaking in an agreement with the parent company, are expected to total an amount of \$ 15 million.

Acquisitions in Tennessee and Kentucky

In April 2016, the Company entered into an agreement with a third party to acquire ownership rights in 8 nursing homes in the States of Tennessee (7) and Kentucky (1), USA, for consideration of \$ 73.9 million. The transaction was closed in August 2016 and financed by bank loans of \$ 44.3 million with an interest rate applying to them of 3.85%, linked to the LIBOR index, and by independent Company sources of \$ 29.6 million. The properties located in the State of Tennessee were rented by the property companies under one framework agreement to 7 lessees, a related party to a controlling shareholder of the Company, which will operate the properties. The rental agreement is of the Triple, net, type, and includes accepted provisions as is customary for rental agreements of this type, and will be for a period of 10 years, with the addition of two options to extend the rental period, each for 5 additional years. The annual rental fees as per the rental agreement total \$ 7.3 million. The property in Kentucky is being rented to the seller in a short-term rental agreement, which ended in January 2017. The rental agreement was extended until April 2017.

C. Transactions connected with investment property (cont.)

2015- During 2015, the Group acquired the ownership rights in ten new investment properties (10 nursing homes, of which four also include long-term acute care hospitals), in consideration for a total of \$ 56.4 million. In addition, in May 2015, the Company acquired the ownership rights in two additional properties, which until the date of their acquisition, had been leased by the Group, for total consideration of \$ 12,000 thousand

2014- During 2014, the Group acquired the ownership interests in five investment properties (4 nursing homes and one building of clinics) for total consideration of approximately \$ 18.75 million. Moreover, during 2014, the Company acquired the ownership interests in seven additional properties for total consideration of \$ 35 million, which, until the date they were acquired, had been leased by the Group. (See also Note 9.C.(2)).

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INVESTMENT PROPERTY (CONT.)

D. Options granted to acquire part of the Group's investment property and their cancellation

As of December 31, 2014, the Company had granted to the lessee of five of the properties which it holds in ownership, with the fair value of the properties as of that date amounting to \$ 22,200 thousand, an option to acquire them, as described in the continuation to this note. In October 2015, the parties signed an agreement that cancels this option.

The ownership of the properties that are the subject of the option was acquired by the Company in June 2014, a date until which the properties were held under lease. According to its terms, the option becomes effective during 2020 only if the Company was the owner of the properties at that time, and it will be exercisable during the years 2020 to 2030. The exercise price for the option to acquire the five properties by the lessee totals \$ 19.75 million- and the balance of the minimal lease fees payable until the option become effective stand at approximately \$ 13.9 million. As consideration for granting the option, the Company received \$ 380 thousand, which, upon its cancellation, was recorded to the statement of the profit and loss. According to the option agreement, if the lessee elects to realize the option, it must be exercised in its entirety en bloc, and all five properties are to be acquired from the Group, together with an additional property held by the Company's parent company. The management of the Company estimated that, as of December 31, 2014, the lessee was not expected to exercise the option.

In October 2015, a rental agreement was signed between the parties replacing the rental agreement effective until December 31, 2014, according to which, among other things, the Company and the lessee agreed to revoke the option.

E. Revenues and expenses connected with investment property

See Note 15 for information on rental fee revenues from investment property.

See Note 12 B for information on direct operating expenses of investment property, both those which generate revenues from rental fees, and those which do not generate such revenues.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INVESTMENT PROPERTY (CONT.)

F. Presentation of investment property at fair value

Investment property is presented on the fair value basis, as determined by evaluations performed principally by an outside appraiser, who possesses recognized professional qualifications and extensive experience in connection with the location and type of real estate being evaluated.

The fair value of the investment property was determined on the basis of an estimate of the future cash flows anticipated from the property (level 3 in the hierarchy of the fair value). When estimating the net cash flows (the anticipated revenues less operating expenses), the risk embedded in them was taken into account, as were limitations on the expected volume of the rental fees, and they were capitalized at a discount rate reflecting the risks incorporated in the net cash flows, determined in consideration of the acceptable market yields for similar properties, adjusted for the specific characteristics of the property, the risk level of its anticipated net revenues and the ability of the lessee to bear the rental fees stipulated by the rental agreement.

G. Capitalization rate and sensitivity analysis

The discount rate used in determining fair value as of December 31, 2016 of the Group's investment properties (nursing homes) is principally between 9.50%-12.00%. An increment of 0.5% to the discount rate will cause a decline in fair value of \$28.3 million as of December 31, 2016; a decrease of 0.5% in the discount rate will cause a rise in fair value of \$ 28.5 million as of December 31, 2016.

H. See Note 12.C. with regard to liens.

I. Acquisition agreements not yet completed

Michigan transaction A

In March 2016, the Company entered into an agreement with a third party to acquire ownership rights in 4 nursing homes in the State of Michigan, USA, for consideration of \$ 15 million. This amount is anticipated to be financed by means of bank loans in an amount of \$ 11 million and independent sources of the Company of \$ 4 million. In August 2016, the agreement was amended so that the sellers were provided with an option to not include one of the properties in the framework of the agreement. Should the sellers exercise this option, the Company will pay consideration of approximately U.S. \$ 11.5 million to the sellers in exchange for the remaining three properties. The closing of the transaction is subject, inter alia, to receipt of approvals from regulatory bodies, to the extent required, and signing a rental agreement with an operator. As of the date of signing these financial statements, the agreement has not yet been closed and there is no assurance in connection with its closing. Out of the total consideration, \$ 500 thousand was paid in March 2016.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INVESTMENT PROPERTY (CONT.)

J. Acquisition agreements not yet completed (cont.)

Michigan transaction B

In February 2017, the Company entered into an agreement with a third party for acquisition of ownership rights of a nursing home in the State of Michigan, USA for total consideration of \$ 4.2 million. This amount is anticipated to be paid from independent sources of the Company. As of the date of signing these financial statements, the agreement has not yet been closed and there is no assurance in connection with its closing. Out of the total consideration, \$ 250 thousand was paid in February 2017.

K. Cash flows problems encountered by the lessee of the Texas and Oklahoma properties

The operator which rented the eight properties of the Company in Texas and Oklahoma encountered cash flows problems, and as a result, did not comply with the full payments of the rental fees for the months of November 2016 through March 2017 (total of \$ 1,515 thousand). During December 2016, as is permitted for the Company according to the rental agreement, the court approved the appointment of a manager for the lessee on its behalf. In addition, since the operator breached the loan agreements for working capital and the bank halted the financing of the operating companies, the Company is the one which provides the manager on its behalf with the working capital which it needs for the operation of the nursing homes. As of March 2017, the Company provided the operator with approximately \$ 4.9 million for working capital purposes (of which 2.6 through December 31, 2016). At this stage, the management of the Company cannot determine the overall damage that it has suffered, if at all. The fair value of the eight properties in Texas and Oklahoma as of December 31, 2016, as estimated by an independent external appraiser, totals an amount of \$ 42.2 million, and their revenues represent 8.72% of the Company's revenues for 2016 See also notes 5, and 15 C.

NOTE 8 - LOANS FROM FINANCIAL AND OTHER ENTITIES

A. Current maturities

	Weighted interest rate- 12.31.2016	As of December 31	
	%	2016	2015
		In \$ 0 0 0	
Current maturities of HUD loans (C. below)	3.65%	5,025	2,214
Current maturities of bank loans	4.39%	2,331	2,567
Current maturities of loans from others	6.73%	333	408
		<u>7,689</u>	<u>5,189</u>

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

B. Long-term loans

	Weighted interest rate- 12.31.2016	As of December 31	
	%	2016	2015
		In \$ 0 0 0	
Non-current loans (D. below)			
HUD guaranteed loans (C. below)	3.88%	238,190	107,329
Bank loans	4.15%	108,174	74,138
Loans from others	5.00%	2,364	360
		348,728	181,827

Repayment dates:

First year	7,689
Second year	82,034
Third year	13,961
Fourth year	30,680
Fifth year	5,806
Sixth year and thereafter	216,247
	356,417

C. Loans guaranteed by HUD

As of December 31, 2016, the Group has non-recourse loans from financial entities of \$ 243.2 million, backed by guarantees of HUD (U.S. Department of Housing and Urban Development), which is a Federal body. In the context of these loans, the Group pledges its rights in the nursing homes in favor of the lender, as well as its right to receive the rental fees, while the lessee of the nursing home gives its consent in the event of breach of the loan agreement by the Company, to the payment of the rental fees owing to the Group directly to the lender. For receipt of the guarantee, the Company pays HUD, on an annual basis, 0.5% of the balance of the loans provided to the Company by the lending bank, in addition to the interest rate denominated in the loan agreements. As a result, the overall interest rate paid by the Company with respect to the HUD- guaranteed loans as of December 31, 2016 was 4.15%.

As part of receiving the HUD guarantee, the Company is required to deposit amounts designated for payments of insurance and taxes in connection with the properties, and for executing enhancements and improvements to them. The balance of these designated amounts as of December 31, 2016 and 2015 totals \$ 14,054 and \$ 6,025 thousand, respectively.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

D. Additional information concerning loans from banks

Financial covenants- in connection with loans whose balance as of December 31, 2016 totals \$ 107.4 million, the Company must meet financial covenants, including, primarily, compliance with a Debt Service Coverage Ratio (DSCR) that will not be below 1.20-1.25.

As of December 31, 2016, the Company complies with all of the financial covenants.

Floating interest rate loans – As of December 31, 2016 loans in a total outstanding amount of \$106.2 million carries LIBOR based interest rate with a margin of 3.5-4.2%

E. Liens and guarantees by controlling shareholders in connection with loans not backed by HUD guarantees

As collateral for the receipt of the loans from financial entities financing the acquisition of the investment properties, not backed by HUD guarantee, whose balance as of December 31, 2016 amounts to \$ 110.5 million, the Group's rights in real estate properties having a fair value as of December 31, 2016 of \$ 178 million, were pledged. A personal guarantee of the controlling shareholders of the Company was also provided for those loans.

F. Offering of debentures (Series A)

Amount and repayment dates- in November 2015, after the Company published a final prospectus in Israel for the issuance of debentures (Series A) in a volume of up to NIS 265.3 million par value, the Company raised a net amount, after raising costs of NIS 14.1 million, of NIS 251.2 million. During September 2016, the Company executed an extension of the Series A debentures, in the context of which the Company issued NIS 70,030,000 par value and raised a gross amount of \$ 19,306 thousand (NIS 72,551 thousand). The debentures were issued at a rate of 103.6 and the net proceeds of the offering amounted to \$ 18,826 thousand (NIS 70,750 thousand). All of the provisions of the trust indenture connected with the debentures (Series A) which were issued in November 2015 apply to the debentures issued in the framework of the extension.

The debentures are repayable in eight annual payments on July 1 of each of the years 2017 through 2024, in a manner that each of the first four payments on account of the principal will represent 15% of the principal of the par value of the debentures, and each of the last four payments on account of the principal will represent 10% of the principal of the par value of the debentures. In view of this, the average duration of the debentures is 3.94 years.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

F. Offering of debentures (Series A) (cont.)

Interest rate- the debentures are not linked to the Consumer Price Index and they bear nominal interest (unlinked) at a rate of 6.4%. The effective weighted interest rate on the debentures, including those issued in the framework of the extension, is 7.4%. The first interest payment was made on July 1, 2016 and, subsequently, the interest will be paid once each half-year.

To the extent that the shareholders' equity of the Company (not including owners of rights not providing control) will be less than \$ 110 million, or to the extent that the ratio of the adjusted net financial debt to adjusted EBITDA (for the latest four quarters) will exceed 12, the interest on the debentures will rise by an additional 0.5% annually, but only once with respect to each breach of any such covenant. The examination of compliance with this financial covenant will be made both with respect to the annual financial statements, as well as with respect to the interim financial statements (quarterly). The net adjusted financial debt as of December 31, 2016 is \$ 396.1 million; the adjusted EBITDA for the 12 months ended on that date is \$ 53,713 thousand i.e. a ratio of 7.37.

Additionally, if a decline in the rating of the debentures should take place, then for each single notch, the interest will be increased by 0.25% per year, up to a maximum increment of 1.25% annually. In any case, the total increment to the interest rate, with respect to any of the above violations on an accumulated basis, will not exceed 1.5% per year. If the rating of the debentures will rise, after their rating had declined, and to the extent that the interest rate was not previously raised with respect to a deviation from the above financial covenants, or alternatively, if after a deviation from the above financial covenant, the Company, according to its financial statements, will comply with the financial covenants required, the interest rate will be decreased so that its rate will not be lower than the denominated interest rate (6.4%).

As of December 31, 2015, the Company complies with the above covenants in a manner not necessitating an increase of the interest rate.

Collateral- the debentures are unsecured, except by way of an interest cushion, according to which a deposit will be made to the bank account in the name of the trustee for the debentures, and for the benefit of the debenture holders, of a sum equivalent to the amount of the next interest payment on the debentures (see Note 4). In addition, the Company committed not to pledge its assets in a general lien without obtaining the consent in advance of the debenture holders. Nevertheless, the Company is entitled to register specific liens on its properties and also to provide guarantees; and its subsidiaries are entitled to register a lien, including general and specific, on their assets.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

F. Offering of debentures (Series A) (cont.)

Financial covenants- up to the date of the full repayment of the debentures, the Company must comply with financial covenants, both relating to the annual financial statements and to the interim financial statements (quarterly), as detailed below:

Financial obligation	Manner of calculation of financial covenant and its results as of December 31, 2016	Comments
The shareholders' equity of the Company (not including rights not providing control) will not be less than \$ 100 million	This shareholders' equity of the Company = \$ 218.13 million. The Company complies with the financial covenant	Section 6.4(1) to the trust indenture
The ratio of the consolidated shareholders' equity of the Company (including rights not providing control) to the total consolidated balance sheet will not be less than 28%.	This shareholders' equity of the Company = \$ 218.13 million; the total balance sheet = \$ 686.3 million, so the ratio is 31.78%. The Company complies with the financial covenant	Section 6.4(2) to the trust indenture
The ratio of the adjusted net financial debt to adjusted EBITDA (for the past four quarters) will not exceed 13	Adjusted financial debt= \$396.1 million; adjusted EBITDA= \$ 53.7 million, so the ratio is 7.37. The Company complies with the financial covenant	Section 6.4(3) to the trust indenture
The ratio of the adjusted net financial debt to adjusted EBITDA (for the past four quarters) will not exceed 12	Adjusted financial debt= \$396.1 million; adjusted EBITDA= \$ 53.7 million, so the ratio is 7.37.. The Company complies with the financial covenant	Section 5.4(1) to the trust indenture. Non compliance with the financial covenant does not represent a breach but might lead to an interest rate adjustment. See also Note 8.F.
The consolidated shareholders' equity of the Company (not including rights not providing control) will not be less than \$ 110 million	The consolidated shareholders' equity of the Company (not including rights not providing control) = \$ 218.13 million. The Company complies with the financial covenant	Section 5.4(2) to the trust indenture. Lack of compliance with the financial covenant does not represent a breach but might lead to an adjustment of the interest rate. See also Note 8.F. ts
Limitation on distribution of dividends	The earnings available for distribution, according to the dividends limitation, were \$ 11,900 thousand, as of December 31, 2016. The Company distributed dividends in a total of \$ 8,600 thousand during 2016.	Section 6.5 to the trust indenture.

Non-compliance with any of the above covenants during two consecutive quarters will be grounds for positioning the entire unpaid balance of the debentures (Series A) for immediate repayment. As of December 31, 2016, the Company complies with all of the financial covenants.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

F. Offering of debentures (Series A) (cont.)

Hedge of the debentures-in December 2016, the Company entered into a hedge transaction of the “collar” type with a bank, according to which the Company has a “put” option vis-à-vis the bank in an amount of \$ 83.33 million, which becomes effective at an exchange rate of NIS 3.60 to each dollar, and conversely, the bank has a “call” option vis-à-vis the Company in an amount of \$ 77.32 million, which becomes effective at an exchange rate of NIS 3.88 to each dollar. 83.33% of the options are valid until December 8, 2017 and approximately 16.7% are valid until March 9, 2018. As of December 31, 2016, an anticipated loss has been created for the Company from this hedge transaction in an amount of \$ 2,628 thousand, which was charged to financing expenses in the statement of profit and loss. As a result of hedge transactions in which the Company entered in the past, and which were closed in December 2016, a gain in an amount of \$ 145 thousand was created for the Company, which was recorded to financing expenses in the statement of profit and loss.

G. Loans from related parties

During 2015, related companies provided three loans for the benefit of subsidiaries, whose balance as of December 31, 2016 totaled an amount of \$ 2,354 thousand. These loans bear interest at a rate of 10%. One loan, in an amount of \$ 1.5 million, will be repayable in January 2026, or upon demand, whichever is sooner. A second loan in an amount of \$ 0.85 million will be repayable in June 2018, or upon demand, whichever is sooner. During 2016, \$ 4,598 thousand was repaid.

NOTE 9 - LIABILITIES FOR LEASES CLASSIFIED AS INVESTMENT PROPERTY

A. Operating leases classified as investment property

As of December 31, 2016, the Group has four properties under operating lease agreements, whose lease rights are classified in these financial statements as investment property, and which are treated in a manner similar to a financing lease (see Notes 2.H. and 7). The four properties are rented in sub leases to nursing home operators. The lease periods of two properties end in 2022 and 2028, and those of the remaining ones, in 2032. The Company has an option to acquire the two remaining properties in 2022

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - LIABILITIES FOR LEASES CLASSIFIED AS INVESTMENT PROPERTY (CONT.)

B. Material lease agreements

According to the lease agreements that are in effect as of December 31, 2016, the lease fees paid by the Company rise over the lease periods in a graduated manner, at a rate of 0% to 2% per year.

C. Obligations with respect to financing lease or operating lease agreements

(1) Composition

	<u>As of December 31,</u> <u>2 0 1 6</u>		<u>As of December 31,</u> <u>2 0 1 5</u>	
	<u>Minimal</u> <u>lease</u> <u>payments</u>	<u>Present</u> <u>value of</u> <u>minimal</u> <u>lease</u> <u>payments(*)</u>	<u>Minimal</u> <u>lease</u> <u>payments</u>	<u>Present</u> <u>value of</u> <u>minimal</u> <u>lease</u> <u>payments (*)</u>
	<u>In \$ 0 0 0</u>			
Coming year-current maturity	1,267	1,191	705	659
Second through fifth year	5,144	3,662	2,894	2,005
Sixth year and thereafter	8,182	3,888	4,172	1,499
	<u>14,593</u>	<u>8,741</u>	<u>7,771</u>	<u>4,163</u>
Less-future financing expenses	(5,851)		(3,607)	
Present value of minimal lease payments	<u>8,741</u>		<u>4,163</u>	
Presentation in statement of financial position:				
Current liabilities-lease fees payable	1,191		659	
Non-current liabilities-lease fees payable	7,550		3,504	
	<u>8,741</u>		<u>4,163</u>	

(*) The minimum lease payments have been capitalized at a rate of 10.8% as of December 31, 2016 and 2015, determined according to the estimate of an outside appraiser.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - LIABILITIES FOR LEASES CLASSIFIED AS INVESTMENT PROPERTY (CONT.)

(2) Acquisition of properties under financing leases

2015-in May 2015, the Company acquired ownership rights to two properties which, until their acquisition, had been leased by the Group. Following the acquisition of the properties and the expunging of the relevant lease obligation, the Company incurred expenses of \$ 2,513 thousand, recorded as financing expenses.

D. Fair value

See Note 18 for information regarding the fair value of obligations with respect to financing lease arrangements.

NOTE 10 - PAYABLES AND OTHER CURRENT LIABILITIES

Composition:

	As of December 31,	
	2016	2015
	In \$	0 0 0
Land tax authorities	6,722	1,758
Lessees with respect to property improvements and maintenance (see Note 8.C.)	3,011	1,681
Interest payable on debentures and loans	4,373	1,065
Liability with respect to hedge transaction for debentures (see Note 8.F.)	2,628	1,574
Other	120	54
	<u>16,854</u>	<u>6,132</u>

NOTE 11 - TAXES ON INCOME

Tax laws applying to the Company and the Group companies

The Company is a company incorporated in the British Virgin Islands and it is not subject to tax there. As regards American taxation, the Company elected, pursuant to an option provided to it by the United States tax laws, to be considered as a transparent company for tax purposes-an LLC (Limited Liability Company/look through entity). In light of this, the Company is not assessed for tax purposes and the tax liability with respect to its operations is that of its shareholders. In addition, all of the entities held by the Company were incorporated in the United States and they also elected to be considered as transparent companies for purposes of the American tax laws (LLC's).

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - TAXES ON INCOME (CONT)

Accordingly, the entities held by the Company have no tax liability with respect to the income derived from their operations but their shareholders do.

The result of the aforementioned is that all of the taxable income of the Company and of each one of its investee companies, both at the Federal level and at the level of the states in which the Company operates as of December 31, 2016, is not taxed at the level of the Group, but at the level of its shareholders. Due to this, current or deferred income tax income and expenses are not presented in these financial statements.

NOTE 12 - CONTINGENT LIABILITIES, COMMITMENTS AND LIENS

A. Contingent liabilities

See Note 8.D. and 8.F. as regards the matter of financial covenants

B. Commitments-controlling shareholders, interested and related parties

The controlling shareholder of the Company is Strawberry Fields REIT LLC, whose principal shareholders are Messrs. Moishe Gubin and Michael Blisko.

1. Management services agreement

The Group entered into a management services agreement with Strawberry Fields Management Services, LLC, a company owned by the controlling shareholders of the Company, according to which this company will grant management services to the Company in the U.S., including the following services: accounting reporting, current legal consultation, Company secretary services, office services, communications and computers, senior management and directors services (chairman of the board, joint CEOs and person in charge of financial matters), collection of rental fees paid by the lessees with respect to the Group's properties, bookkeeping services, operating the Group's properties and consulting and management services in connection with the purchase, sale and financing of properties.

In consideration for the above management services, the Company will pay monthly management fees to Strawberry Fields Management Services, LLC in an amount equivalent to 2.0% of the rental fees received by the Group, as they are presented in the financial statements of the Company, as well as reimbursement of direct expenses expended by the management company in the context of granting management services to the Company. The Company will be permitted to terminate the validity of the management agreement by notification to be submitted to the management company 60 days in advance.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - CONTINGENT LIABILITIES, COMMITMENTS AND LIENS (CONT.)

B. Commitments-controlling shareholders, interested and related parties (cont.)

The management company will be permitted to terminate the validity of the management agreement by notification to be submitted to the Company 180 days in advance.

The agreement became effective in November 2015, upon completion of the issuance of the Company's debentures (see Note 8.F.) and will be in effect during the period of the life of the debentures.

2. Current bank accounts

As of December 31, 2015, the subsidiaries of the Company had a number of current bank accounts, being administered according to accepted terms customary for current accounts, in Optimum Bank Holdings, in which a controlling shareholder of the Company serves as chairman of the board. Commencing from January 1, 2016, all of the activity of the Group in the Optimum Bank ceased and a negligible number of cash balances remained in them and, beginning from that date, the current accounts of the Group were transferred to two other banks which are third parties to the Group.

3. Demarcation agreement with controlling shareholders

The controlling shareholders of the Company have committed to the debenture holders described in Note 8.F., that during the entire period that the debentures have not been fully repaid, they and the entities that they control will not acquire and will not invest in new yielding properties serving nursing homes and long-term acute care hospitals in certain states in the U.S. (Illinois, Indiana, Ohio, Texas, Michigan and Oklahoma), other than through the Company, and only subject to the first refusal right of the Company to acquire the new property. This will also apply to properties not counted among the existing properties and/or property companies, and/or properties and/or existing property companies that they own, including properties and/or property companies owned by the parent company, and which are not being transferred to the Company as of the offering date; and to properties and/or property companies to be acquired in the context of exercising an option for the acquisition of properties.

4. Indemnification and insurance of the Company's officers and directors

In November 2015, the Company entered into an agreement under which it will grant its officers documents of indemnification, according to which the Company is obligated, subject to the provisions of the law, to indemnify the officers for any charge or expense that will be imposed on them in the context of their function as an officer of the Company, all subject to the terms of the document of indemnification. Moreover, the Company purchased a liability insurance policy for directors and officers of the Company, its subsidiary companies and its related companies, for the officers serving in them on its behalf and/or on behalf of subsidiaries.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - CONTINGENT LIABILITIES, COMMITMENTS AND LIENS (CONT.)

C. Liens

The loans taken by the Company from financial and other funding entities for purposes of financing the acquisition of investment properties are secured by liens on those real estate assets (see Note 7). The balance of the liabilities secured by liens as above as of December 31, 2016 totals \$ 353.7 million.

NOTE 13 - SHARE CAPITAL

A. The authorized share capital of the Company, as of the date of its establishment on February 20, 2015, is composed of 50,000 ordinary shares with no par value. The issued and paid up share capital of the Company is composed of 100 shares with no par value. Each share of the Company provides its holder with the following rights: (a) one vote in the Company's Shareholders' Assembly and/ or in any resolution of the shareholders; (b) an equal share of all dividends to be paid by the Company; and (c) an equal share in the distribution of surplus assets of the Company upon liquidation.

B. Dividend distribution policies

In February 2016, the Board of Directors of the Company adopted dividend distribution policies, the principal ones of which are as follows:

- Commencing from 2016, subject to law and external limitations, the Company will distribute dividends to its shareholders once each year, or a number of times each year at the end of a quarter, in an amount not to be less than 30% of its distributable earnings;
- The distribution of dividends will be carried out subject to approval of the Board of Directors of the Company and according to the Company's needs and its financial obligations as of the date of distribution of the dividends;
- Prior to approval of the dividends to be actually distributed, the Board of Directors will examine, among other things, the compliance of the Company with the financial covenants and various limitations which have been imposed upon it;
- The Board of Directors of the Company is permitted to decide that it will not distribute any dividends at all.

Nevertheless, according to part of the financing agreements of the Group, the borrowing company is forbidden to declare or pay dividends without the consent of the lender. In addition, pursuant to the trust indenture for the debentures, dated November 2015, the Company commits that it will not execute any distribution (as it is defined in the Companies' Law), including not declaring, paying or distributing any dividends, except if all of the following conditions will be present:

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B. Dividend distribution policies (cont)

- (1) The accumulated balance of the earnings and the reserves through June 30, 2015 will not be permitted to be distributed and they will not be taken into account for the purpose of carrying out a distribution on their basis;
- (2) The amount of the distribution will not exceed 40% of the net income, after taxes, which was recognized in the latest consolidated financial statements of the Company (the quarterly or annual, as the case may be), after neutralizing gains/losses derived from a change in the accounting method according to which the financial statements were prepared, and after neutralizing net revaluation gains/losses (not yet realized) resulting from a change in the fair value of the Company's properties in relation to their fair value as of June 30, 2015, or as of the date that the properties were acquired, whichever is later.
- (3) The shareholders' equity of the Company (not including the owners of rights not providing control) at the end of the latest quarter, prior to distribution of the dividends, less the dividends distributed, will not be less than \$ 120 million.
- (4) The consolidated shareholders' equity of the Company (including owners of rights not providing control) to the total consolidated balance sheet will not be lower than 30%, as a result of the distribution;
- (5) The Company complies with the financial covenants described in Note 8.F.

As of December 31, 2016, the earnings available for distribution as dividends, as to which dividends have not been paid as of that same date, in accordance with paragraph (2) above, total \$ 3,300 thousand.

C. Dividends paid and dividends declared

See Note 13.B. above regarding earnings available for distribution as dividends as of December 31, 2016.

In March 2016, the Board of Directors of the Company decided to distribute dividends of \$ 2.2 million, representing 50.4% of the earnings available for distribution as of the date of the decision regarding the dividends.

In May 2016, the Board of Directors of the Company decided to distribute dividends of \$ 1.4 million, representing 53.3% of the earnings available for distribution as of March 31, 2016.

In August 2016, the Board of Directors of the Company decided to distribute dividends of \$ 2.4 million, representing 64.6% of the earnings available for distribution as of June 30, 2016.

In November 2016, the Board of Directors of the Company decided to distribute dividends of \$ 2.6 million, representing 72.3% of the earnings available for distribution as of September 30, 2016.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - FINANCIAL INSTRUMENTS

A. Classification of the financial assets and the financial liabilities

	As of December 31	
	2 0 1 6	2 0 1 5
	In \$ 0 0 0	
Loans and receivables at amortized cost:		
Cash and cash equivalents	24,373	44,184
Designated deposits	9,724	4,223
Trade receivables-income receivable with respect to rental fees rising at a fixed rate (current)	4,743	2,553
Other	3,991	1,164
	42,831	52,124
Trade receivables-income receivable with respect to rental fees rising at a fixed rate (non current)	3,637	-
Designated deposit related to properties for investment	10,047	4,005
	56,515	56,129
Other financial liabilities at amortized cost:		
Credit from financial and other financial entities (current)	7,689	5,189
Credit from financial and other financial entities (non-current)	348,728	181,827
Liabilities for leases classified as investment property (current)	1,191	659
Liabilities for leases classified as investment property (non-current)	7,550	3,504
Loans from related parties	2,354	6,097
Debentures	83,810	64,363
Other payables and current liabilities	14,226	4,558
	458,826	264,439
Financial Liabilities in fair value through Profit and Losses		
Liabilities related to derivative	2,628	1,574

B. Market risk

Interest rate risk

Approximately 70.6% of the loans of the Group with a balance as of December 31, 2016 amounting to \$ 251.6 million bear fixed interest and the Group, therefore, is not exposed to changes in the U.S Federal interest rate. Nevertheless, a rise in the U.S. Federal interest rate could limit the ability of the Company to refinance its properties by way of recycling the existing high interest loans with new loans at lower interest.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - FINANCIAL INSTRUMENTS (CONT.)

C. Credit risk

The Group's tenants pay their rental fees in advance and, as of December 31, 2016, except for the operator who rents the Company's properties in Texas and Oklahoma (see Note 7.J), the Company accordingly has no balance of trade receivables, other than non-material balances of trade receivables-income receivable with respect to rental fees rising at a fixed rate. In view of this, the Company does not anticipate material credit risks with respect to the balances of the various receivables and other current assets.

The balance of cash and cash equivalents and the balance of the deposits of the Group have been placed in accounts of solid and stable banks. Therefore, in the assessment of the management, the credit risk which they incorporate is slight.

D. Liquidity risk

Liquidity risk is the risk that the Company will be unable to comply with its financial liabilities when their payment date will arrive. The Company's approach to management of its liquidity risks is to ensure, to the extent feasible, the measure of liquidity adequate for it to comply with its liabilities on a timely basis.

The Company acts to make possible the presence of adequate levels of liquid resources for payment of anticipated operating expenses and amounts necessary to comply with the financial liabilities. For this purpose, the Company strives to carry out a recycling of the loans for longer periods (25-30 years), for the purpose of reducing the current payments of principal and interest. This does not consider the potential effect of extreme scenarios which cannot reasonably be anticipated.

The table below presents the payment dates of the Group's financial liabilities in non-capitalized amounts as per contractual terms (including interest payments):

	As of December 31, 2016						Total
	Up to	1-2	2-3 years	3-4 years	4-5 years	In excess	
	1 year	years					
In \$ 0 0 0							
Other current liabilities	16,855						16,855
Lease liabilities	1,266	1,274	1,282	1,289	1,297	8,182	14,593
Loans from financial entities	21,272	92,825	23,593	39,439	13,763	324,217	515,109
Debentures	18,405	17,824	16,986	16,151	10,952	29,509	109,827
Loans from related parties	2,354						2,354
	60,152	111,923	41,861	56,879	26,012	361,908	658,738
Future minimum rental fees receivable (see Note 15.C.)	50,706	51,621	52,638	53,956	55,308	288,234	552,463

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - FINANCIAL INSTRUMENTS (CONT.)

D. Liquidity risk (cont.)

	As of December 31, 2015						Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	In excess of 5 years	
	In \$ 0 0 0						
Other current liabilities	6,132	-	-	-	-	-	6,132
Lease liabilities	705	712	720	727	735	4,171	7,770
Loans from financial entities	12,448	12,105	31,531	23,818	36,316	150,600	266,818
Other liabilities	2,717	14,547	13,895	13,242	12,956	31,543	88,900
Loans from related parties	3,000	3,097	-	-	-	-	6,097
	25,002	30,461	46,146	37,787	50,007	186,314	375,717
Future minimum rental fees receivable (see Note 15.C.)	30,157	30,789	31,180	31,585	32,272	217,829	373,812

E. Currency rate risk

Since all of the revenues of the Company are in US\$, and, conversely, the Company has obligations in NIS to the holders of the debentures (Series A), the Company has exposure with respect to changes in the exchange rate of the NIS/\$. See Note 8.F. regarding a hedge transaction entered into by the Company to protect against this exposure.

Sensitivity analysis of changes in the foreign currency exchange rates:

The following table details the sensitivity of the balance of the debentures to a rise or decline of 5% in the exchange rate of the \$ vis-à-vis the NIS:

	As of December 31, 2016	
	In \$ 0 0 0	
	Rise of 5%	Decline of 5%
Balance of debentures as a result of a change in the exchange rate	79,819	88,221
Effect on balance of the debentures/financing expenses (income) in profit and loss	(3,991)	4,411

Rate of exchange of the \$/NIS as of December 31, 2016 was 3.845.

F. Fair value

See Note 18 regarding assets and liabilities presented at fair value.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - FINANCIAL INSTRUMENTS (CONT.)

G. Capital management of the Company

The Company manages its capital structure and performs adjustments in accordance with economic conditions. In order to manage or to adjust its capital structure, the Company decides on credit policies, loan repayments, recycling of loans, investment or realization of properties, dividend distributions and the need, if at all, to raise funds by shares or debentures.

NOTE 15 - ADDITIONAL DETAILS OF SECTIONS OF THE STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

A. Composition of revenues

	For the year ended December 31		
	2 0 1 6	2 0 1 5	2 0 1 4
	In \$ 0 0 0		
Rental fees from properties owned and under financing lease	45,340	27,375	21,885
Rental fees from properties under operating lease	2,427	3,921	5,372
	47,767	31,296	27,257

B. Principal terms of the rental agreements

The properties of the Group are rented for periods between 10 and 20 years (not including extension options), with an average of 10.5 years. In part of the agreements, the lessees have extension options for periods of 5 to 10 years.

According to the majority of the rental agreements, the rental revenues rise over the rental period in a graduated manner at the rate of 1-3% per year (primarily 3%).

As of December 31, 2016, the Company has seven framework agreements (a rental agreement vis-à-vis a group with identical ownership which rents a number of nursing homes from the Company). In 2016, these agreements yielded rental fees to the Company in a total of \$ 27.3 million, and they relate to 39 nursing homes. Out of these agreements, one agreement relates to 13 nursing homes, yielding annual rental fees to the Company in an amount of \$ 13.6 million over ten years ending in 2025.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - ADDITIONAL DETAILS OF SECTIONS OF THE STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (CONT.)

C. Minimal future leasing fees receivable

Non-cancellable future minimum lease fees receivable, before averaging ratings as stated in Note 2.M., are:

	As of December 31,		
	2 0 1 6	2 0 1 5	2 0 1 4
	In NIS 0 0 0		
First year (*)	50,706	30,157	25,126
Second to fifth year	213,523	125,826	105,854
Sixth year and thereafter	288,234	217,829	243,566
	552,463	373,812	374,546

(*) This amount include \$4,907 thousand that is related to the Texas lease where the tenant has cash flow problems (see 7 J)

D. Information with regard to material rental agreements

The following is information regarding material Master Leases of the Company:

	Number of licenses	Annual rental fees (NIS 000) (*)	Rented to related party	Period of agreement (years)	Extension options (years)	Triple net
Indiana Master Lease	13	13,591	Yes	10	5 times	Yes
Tennessee Master Lease	7	7,266	Yes	10	5 times	Yes
Texas Master Lease (**)	8	4,907	No	15	7 times	Yes
Illinois Master Lease	5	2,607	Yes	10	5 times	Yes

(*) Rental fees rise at a rate of 2.25%-3% per year.

(**) See Note 7 J for more information on cash flow problems the tenant is experiencing.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

A. Balances with interested parties and related parties

	As of December 31,	
	2016	2015
	In \$ 0 0 0	
Other receivables and current assets	1,350	599
Income to receive	7,109	2,114
Lessees with respect to property improvements and maintenance	3,011	1,681
Loans from controlling shareholders (including accrued interest)	2,354	6,097

B. Transactions with interested and related parties; key personnel

	For the year ended December 31		
	2016	2015	2014
	In \$ 0 0 0		
Financing income	-	83	33
Financing expenses	(347)	(548)	(220)
	<u>(347)</u>	<u>(465)</u>	<u>(187)</u>
Revenues from rental fees (*)	<u>41,144</u>	<u>27,984</u>	<u>27,257</u>
Management services expenses (see Note 12.B.(1))	<u>858</u>	<u>625</u>	<u>545</u>
General and administrative expenses	<u>97</u>	<u>235</u>	<u>300</u>

(*) In 2014, all of the nursing homes operating companies, which are the tenants in the Group's nursing homes, were companies controlled by the Company's controlling shareholders, or parties related to them, directly or indirectly. In 2015, twelve of the operating companies were not companies controlled by the Company's controlling shareholders, or parties related to them, directly or indirectly, and in 2016, thirteen of the operating companies were not companies controlled by the Company's controlling shareholders, or parties related to them, directly or indirectly.

Key personnel

As mentioned in Note 12.B.(1), the management company, a company controlled by the controlling shareholders of the Company, grants the Company, among other things, senior management and directors services, including officers in the form of chairman of the board and joint CEO, joint CEO and person in charge of financial matters, and director.

C. Commitments

See Note 12.B. with regard to commitments with controlling shareholders.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - FINANCING INCOME (EXPENSES), NET

	Year ended December 31,		
	2016	2015	2014
	In \$ 0 0 0		
Financing expenses			
Interest expenses with respect to debentures, net after deducting exchange rate differences	(5,933)	(139)	-
Loss with respect to hedge transaction on debentures (see Note 8.F.)	(909)	(1,574)	-
Interest expenses on loans from banks and others	(13,574)	(8,264)	(6,116)
Interest expenses with respect to leases	(884)	(1,556)	(5,713)
Loan refinancing expenses	-	-	(46)
Lease refinancing income (expenses), net	-	(2,513)	(256)
Other financing expenses (including to related parties), net	(826)	(1,693)	(128)
Total financing expenses	(22,126)	(15,739)	(12,259)
Financing income	548	252	126

NOTE 18 - FAIR VALUE

A. Fair value in comparison with book value of items in the statement of financial position not measured at fair value

The balance in the financial statements of cash and cash equivalents, other receivables and current assets, designated deposits, other payables and current liabilities, short-term loans from financial and other entities, and related party balances, which are part of the Company's working capital, matches or is close to their fair value.

B. Fair value of assets and liabilities in the statement of financial position measured at fair value

For purposes of measuring the fair value of the assets and the liabilities, the Company classifies them according to a hierarchy composed of the following three levels. The classification of the assets and the liabilities measured at fair value was done based on the lowest level at which significant use was made for purposes of measuring the fair value of the asset or the liability in its entirety.

Level 1: Quoted prices (unadjusted) in active markets that are accessible by the Company at the measurement date for identical assets or identical liabilities;

Level 2: Data, other than quoted prices included in Level 1, which can be anticipated for the asset or the liability, directly or indirectly.

Level 3: Data that cannot be anticipated for the asset or the liability.

See Note 7 regarding information on the fair value of investment property. Measurement of the fair value of investment property is ranked at Level 3 of the fair value hierarchy. See Note 8.F. for information on the liability for hedge transactions on debentures, presented at fair value.

STRAWBERRY FIELDS REIT LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - FAIR VALUE (CONT.)

C. Fair value of assets and liabilities not measured at fair value in the statement of financial position

The following are details regarding the fair value of certain items which are not measured at fair value in the statement of financial position:

	Level of fair value	Value in accounts		Fair value	
		As of December 31		As of December 31	
		2016	2015	2016	2015
		In \$ 0 0 0			
Financial liabilities					
Debentures(1)	1	83,810	64,868	90,635	68,780
Liabilities for leases (2)	3	8,741	4,163	8,206	4,163
Long-term loans at fixed interest (3)	3	251,678	128,795	251,400	145,327
		<u>344,229</u>	<u>197,826</u>	<u>350,241</u>	<u>218,270</u>

- (1) Quoted price according to the price of the debentures on the Stock Exchange as of December 31, 2015 (94.46) and 2016 (103.94).
- (2) In order to estimate the fair value as of December 31, 2016, the Company used a capitalization rate of 10.48% (December 31, 2015-11.75%), which was estimated based upon the opinion of an outside appraiser.
- (3) The estimated fair value of the long term loans bearing fixed interest is based upon the calculation of the present value of the cash flows according to the following interest rates, as of December 31:

	<u>2016</u>	<u>2015</u>
	%	%
HUD loans	3.39%	3.40%
Loans from banks and others	4.47%	4.27%

STRAWBERRY FIELDS REIT LTD
NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Appendix to pro forma consolidated financial statements
List of Group companies

Name of company	Country of incorporation	Rights of Company in equity and voting rights as of December 31	
		2016	2015
		%	%
Continental Realty, LLC	United States	100%	100%
The Waters of Muncie II, LLC (1)	United States	100%	100%
The Waters of Newcastle II, LLC (1)	United States	100%	100%
The Waters of Huntingburg II, LLC	United States	100%	100%
The Waters of Princeton II, LLC	United States	100%	100%
Forest View Nursing Realty, LLC	United States	100%	100%
1623 West Delmar Ave, LLC	United States	100%	100%
Lincoln Park Holdings, LLC	United States	100%	100%
Momence Meadows Realty, LLC	United States	100%	100%
Oak Lawn Nursing Realty, LLC	United States	100%	100%
516 West Frech St, LLC	United States	100%	100%
107 South Lincoln Street LLC	United States	100%	100%
West Suburban Nursing Realty, LLC	United States	100%	100%
393 Edwardsville Road LLC	United States	100%	100%
1101 Glendale Boulevard LLC (2)	United States	100%	100%
958 East Highway 46 Realty, LLC	United States	100%	100%
950 Cross Ave Realty, LLC	United States	100%	100%
1600 East Liberty Street Realty, LLC	United States	100%	100%
12803 Lenover Street Realty, LLC	United States	100%	100%
1601 Hospital Dr Realty, LLC	United States	100%	100%
3895 Keystone Ave Realty, LLC	United States	100%	100%
2055 Heritage Dr Realty, LLC	United States	100%	100%
405 Rio Vista Lane Realty, LLC	United States	100%	100%
1350 North Todd St, LLC	United States	100%	100%
1316 North Tibbs Avenue Realty, LLC	United States	100%	100%
315 South Brady Mill Rd, LLC	United States	100%	100%
120 N Tower Rd, LLC	United States	100%	100%
430 South Front St, LLC (3)	United States	100%	100%
1900 North Park Ave, LLC (3)	United States	100%	100%
900 West Race St, LLC (3)	United States	100%	100%
911 South 3rd St Realty, LLC	United States	100%	100%
1621 Coit Road Realty, LLC	United States	100%	100%
2301 North Oregon Realty, LLC	United States	100%	100%
5601 Plum Creek Drive Realty, LLC	United States	100%	100%
8200 National Ave Realty, LLC	United States	100%	100%
620 West Strub Road Realty, LLC	United States	100%	100%
3090 Five Points Hartford Road Realty, LLC	United States	100%	100%
3121 Glanzman Road Realty, LLC	United States	100%	100%
4250 Sodom Hutchings Road Realty, LLC	United States	100%	100%
704 5th Avenue East, LLC	United States	100%	(4)
Westshire Realty, LLC	United States	100%	(5)
1301 De Young St, LLC		100%	(5)
253 Bradington Drive, LLC	United States	100%	(5)

115 Woodlawn Drive, LLC	United States	100%	(4)
146 Buck Creek Road, LLC	United States	100%	(4)
727 North 17th St, LLC	United States	100%	(5)
3523 Wickenhauser, LLC	United States	100%	(5)
Ambassador Nursing Realty, LLC	United States	100%	(5)
Midway Nuorological and Rehab Realty, LLC	United States	100%	(5)
Parkshore Estates Nursing Realty, LLC	United States	100%	(5)
Niles Nursing Realty, LLC	United States	100%	(5)
West Suburban Nursing Realty, LLC	United States	100%	(5)
Belhaven Realty, LLC	United States	100%	(5)
308 West Maple Avenue, LLC	United States	100%	(4)
835 Union Street, LLC	United States	100%	(4)
140 Technology Lane, LLC	United States	100%	(4)
202 Enon Springs East, LLC	United States	100%	(4)
2501 River Road, LLC	United States	100%	(4)
TX/OK Funding LLC	United States	100%	(6)

- (1) By means of The Big H2O., LLC, held directly by the Company at a 100% rate.
- (2) Building of doctors' clinics.
- (3) By means of Southern Illinois Healthcare Properties II, LLC held directly by the Company at a 100% rate.
- (4) Companies acquired during 2016.
- (5) Companies transferred from the parent company during 2016
- (6) A company established in 12/2016 for financing operations in Texas