STRAWBERRY FIELDS REIT LTD.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2018

(Unaudited)

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Contents

Independent auditors' review report to the shareholders of
<u>STRAWBERRY FIELDS REIT LTD</u>

<u>Introduction</u>

We have reviewed the accompanying financial information of Strawberry Fields REIT Ltd. and its subsidiaries, (hereafter-the Company) which includes the condensed statement of financial position as of September 30, 2018, and the condensed statements of profit and loss and comprehensive income, changes in equity and cash flows for the nine and three months periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim periods in accordance with IAS 34 "Financial Reporting for Interim Periods", and they are also responsible for the preparation of the financial information for the interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this financial information for interim periods based on our review.

<u>Scope of Review</u>

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

<u>Conclusion</u>

Based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the aforesaid in the preceding paragraph, based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

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

Tel Aviv, Israel, November 29, 2018

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STRAWBERRY FIELDS REIT LTD
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30		December 31,
	2018	2017	2017
		In $ 000	
	(Unaudited)		
Current assets			
Cash and cash equivalents	4,772	15,477	18,212
Designated deposits	2,819	3,474	7,602
Trade receivables-income receivable with respect to rental fees rising at a fixed rate	3,866	3,792	4,015
Other Current Assets	2,021	7,280	6,465
Investment Available for Sale	6,146	-	-
	19,624	30,023	36,294
Non- current assets			
Investment property	662,791	650,206	637,150
Long-term receivables	37,347	21,003	21,622
	700,138	671,209	658,772
Total assets	**719,762**	**701,232**	**695,066**
Current liabilities			
Current maturities of debentures	15,479	15,909	16,193
Current maturities of loans from financial entities and others	11,539	8,866	9,263
Current maturities of liabilities with respect to leases classified as investment property	1,204	1,097	1,198
Other current liabilities	15,925	13,303	16,289
	44,147	39,175	42,943
Non- current liabilities			
Debentures	153,721	72,208	73,684
Loans from financial entities and others	297,043	358,658	356,397
Liabilities for leases classified as investment property	7,105	7,434	7,356
Loans from related parties	-	853	-
	457,869	439,153	437,437
Equity			
Share capital			
Share premium	144,175	144,175	144,175
Retained earnings	73,571	78,729	70,511
	217,746	222,904	214,686
Total liabilities and equity	**719,762**	**701,232**	**695,066**

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

November 29, 2018			
Date of approval of financial statements	**Moishe Gubin** **Chairman of the Board and joint CEO**	**Nahman Eingal** **Joint CEO**	**Miriam Eisenbach** **CFO**

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

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2018	**2017**	**2018**	**2017**	**2017**
			In $ 000		
	(Unaudited)				
Rental revenues from investment property	44,750	38,628	15,401	13,506	52,148
Cost of renting and operating properties	(2,525)	(2,120)	(754)	(764)	(2,876)
Income from rental and operation of properties	42,225	36,508	14,647	12,742	49,272
Adjustment of fair value of investment property	(18,008)	(3,352)	(14,942)	(1,051)	(15,165)
General and administrative expenses	(699)	(946)	(190)	(541)	(1,232)
Loss of Fair Market Value of Loan	(2,810)	-	(357)	-	-
	20,708	32,210	(842)	11,150	32,875
Financing expenses	(16,437)	(22,101)	(9,450)	(5,807)	(29,787)
Financing income	189	164	73	46	217
Net financing expenses	(16,248)	(21,937)	(9,377)	(5,761)	(29,570)
Net income (loss) for the period	**4,460**	**10,273**	**(10,219)**	**5,389**	**3,305**
Comprehensive income (loss)	**4,460**	**10,273**	**(10,219)**	**5,389**	**3,305**

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

STRAWBERRY FIELDS REIT LTD
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Retained earnings	Total
		In $ 0 0 0		
For the period of nine months ended September, 2018 (unaudited)				
Balance as of January 1, 2018	**-**	**144,175**	**70,511**	**214,686**
Comprehensive income			4,460	4,460
Dividends paid			(1,400)	(1,400)
Balance as of September 30, 2018	**-**	**144,175**	**73,571**	**217,746**

	Share capital	Share premium	Retained earnings	Total
		In $ 0 0 0		
For the period of nine months ended September 30, 2017 (unaudited)				
Balance as of January 1, 2017	**-**	**144,175**	**73,956**	**218,131**
Comprehensive income	-		10,273	10,273
Dividends paid			(5,500)	(5,500)
Balance as of September 30, 2017	**-**	**144,175**	**78,729**	**222,904**

	Share capital	Share premium	Retained earnings	Total
		In $ 0 0 0		
For the period of three months ended September 30, 2018 (unaudited)				
Balance as of April 1, 2018	**-**	**144,175**	**83,790**	**227,965**
Comprehensive income (loss)			(10,219)	(10,219)
Dividends paid			-	-
Balance as of September 30, 2018	**-**	**144,175**	**73,571**	**217,746**
For the period of three months ended September 30, 2017(unaudited)				
Balance as of July 1, 2017	**-**	**144,175**	**74,840**	**219,015**
Comprehensive income			5,389	5,389
Dividends paid			(1,500)	(1,500)
Balance as of September 30, 2017	**-**	**144,175**	**78,729**	**222,904**
Year ended December 31, 2017				
Balance as of January 1, 2017	**-**	**144,175**	**73,956**	**218,131**
Comprehensive income	-		3,305	3,305
Distributions to shareholders	-		(6,750)	(6,750)
Capital reserve, including for receipt of services from controlling shareholders				
Balance as of December 31, 2017	**-**	**144,175**	**70,511**	**214,686**

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

STRAWBERRY FIELDS REIT LTD
PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period of Nine months ended September 30		For the period of Three months ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	In $ 000				
CASH FLOWS - OPERATING ACTIVITIES					
Net income for the period	4,460	10,273	(10,219)	5,389	3,305
Adjustments necessary to present cash flows from current operations:					
Expenses (income) not involving cash flows:					
Adjustments of fair value of investment property	18,008	3,471	14,942	1,083	15,165
Exchange rate differences on debentures	(3,279)	8,951	2,344	(837)	10,711
Discount in value of loan	2,810	-	357	-	-
Changes in asset and liability items:					
Change in trade receivables-income receivable with respect to rental fees rising at a fixed rate	(3,377)	(3,471)	(1,070)	(1,083)	(4,367)
Decrease (increase) in receivables and other current assets	510	(3,289)	(86)	421	(2,474)
Increase (decrease) in payables and other current liabilities	(362)	(3,551)	(1,378)	(1,861)	(565)
Net cash provided by current operations	**18,770**	**12,385**	**4,890**	**3,111**	**21,775**
CASH FLOWS - INVESTING ACTIVITIES					
Acquisitions of investment property	(49,798)	(22,560)	(38,275)	(22,198)	(22,560)
Advance Payment om Investment of Property	(7,629)	-	(3,629)	-	-
Proceeds from sale of Property	-	-		-	1,067
Repayment (Investment) of designated deposits, net	1,338	2,029	18,261	21,654	(1,752)
Net cash used for investing activities	**(56,089)**	**(20,531)**	**(23,643)**	**(544)**	**(23,245)**
CASH FLOWS - FINANCING ACTIVITIES					
Net proceeds from issuance of debentures	98,198	11,265	32,632	-	11,265
Repayment of debenture	(15,597)	(15,909)	(15,597)	(15,909)	(15,909)
Receipt of loans from financial entities	9,175	46,609	9,175	15,000	46,609
Repayment of loans from financial entities	(68,192)	(35,254)	(11,634)	(1,833)	(37,034)
Repayment of loans from others	(265)	(248)	(177)	(84)	(333)
Loans from others	2,205	-	2,205	-	-
Repayment of lease liabilities	(245)	(212)	(84)	(73)	(187)
Repayment of loans received from related parties	-	(1,500)	-	-	(2,353)
Dividends	(1,400)	(5,500)	-	(1,500)	(6,750)
Net cash provided by (used for) financing activities	**23,879**	**(749)**	**16,520**	**(4,399)**	**(4,692)**
Increase (decrease) in cash and cash equivalents	(13,440)	(8,895)	(2,233)	(1,831)	(6,162)
Balance of cash and cash equivalents at beginning of period	18,212	24,373	7,005	17,308	24,373
Balance of cash and cash equivalents at end of period	**4,772**	**15,477**	**4,772**	**15,477**	**18,212**
Additional information:					
Interest paid (including refinancing costs)	20,638	14,433	9,260	2,386	25,018

The attached notes are an integral part of the interim 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 for the net proceeds amount of 251.1 million Shekels. For additional information regarding the debentures please see foot note 8 F to the Company annual financials.

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, 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. As of June 30, 2018, 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, Arkansas, Massachusetts, Texas and Oklahoma.

In regards for a new bond offering (Series B) in April and August 2018 in a net amount of approximately $98 million see note 6 d.

B. Definitions:

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
HUD	-	U.S Department of Housing and Urban Development, a Federal body

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis for presentation of financial statements

The interim financial statements of the Company were prepared in accordance with the International Accounting Standard IAS 34, Financial Reporting for Interim Periods.

In preparing these interim financial statements, the Group implemented accounting policies, presentation principles and calculation methods identical to those implemented in preparing the financial statements as of June 30, 2018 and for the year ended on that date.

B. Securities Regulations

The interim financial statements were prepared in accordance with the disclosure provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports)- 1970.

C. Standards, amendment to standards and new interpretations prior to implementation

See foot note 3 a to the Company's December 31, 2017 financials

- **IFRS 16, leases-** The standard will first be implemented – January 1, 2019. The Company's intension is to implement the standard prospectively in a manner that the implementation will have no effect on the Company's profit for the period. As of September 30, 2018, the Company has two properties which are leased and sub-leased that will be applicable to the new standard. If the Company had implemented the standard, the Investment Properties as of September 30, 2018 would have declined by less than 1%, and the balance would have been presented in the long-term receivables in an approximate amount of $6.4 million. In addition, Rental Income for the 9 months ended on September 30, 2018, would have been reduced by approximately 2.5% and the income would have been reported under Interest Income in the approximate amount of $0.5 million. The implementation of the new standard should have no effect on the Company's cash flow.

D. Exchange rates and linkage basis:

(1) Balances denominated in or linked to foreign currency (not the $) are presented according to the representative exchange rates published by the Bank of Israel in effect as of the balance sheet date

(2) Following are data regarding the exchange rates of the $:

	Representative exchange rate of the $ (NIS per $ 1)
Rates of increase (decrease) for period ended on	%
September 30, 2018- nine months	4.615%
September 30, 2017- nine months	(8.22%)
September 30, 2018- Three months	(0.63%)
September 30, 2017- Three months	(0.94%)
December 31, 2017- Twelve months	(9.83%)

NOTE 3 - ADDITIONAL INFORMATION AND OCURRENCES DURING THE REPORTING PERIOD

A. 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, dividends in an amount not to be less than 30% of its after tax earnings, according to the financial statements, for as long as the distribution of the dividends will fulfill the provisions of the law from the standpoint of the tests for distribution of dividends stated in Section 302 of the Companies Law;

- 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.

Nevertheless, according to the company's loan agreement, the trust indenture for the debenture series A dated November 2015 and the trust indenture for the debenture series B dated April 2018, 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:

(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 considered for the purpose of carrying out a distribution on their basis;

(2) 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 for Bond Series A and $190 Million for Bond series B.

(3) The amount of the distribution will not exceed 40% and will not be less than 30% 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 earnings/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.

(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 29%, as a result of the distribution;

(5) The Company complies with the financial covenants-see Note 4 below.

NOTE 3 - ADDITIONAL INFORMATION AND OCURRENCES DURING THE REPORTING PERIOD (CONT.)

(6) In addition, according to the debenture series B deed of trust, the company can increase the Dividend from 40% to 70% of net income as long as total equity will be above $280 million.

B. Dividends paid and dividends declared

Regarding earnings available for distribution as dividends as of September 30,2018, see Note 4 below.

In February 2018, the Board of Directors of the Company decided to distribute dividends of $ 1.4 million, representing 35.56% of the earnings available for distribution as of December 31, 2017.

NOTE 4 - COMPLIANCE WITH FINANCIAL COVENANTS RELATED TO DEBENTURES

A. (SERIES A & B)

Until the date of full repayment of the debentures (Series A), described in Note 8.F. to the financial statements as of December 31, 2017, and until the date of full repayment of the debentures (Series B), described in Note 6D to the financial statements as of June 30, 2018, the Company must comply with financial covenants as detailed below, both in relation to the annual financial statements as well as in relation to the interim (quarterly) financial statements

Financial obligation Bond A	**Financial obligation Bond B**	**Manner of calculation of financial covenant and its results as of September 30, 2018**	**Comments**
The shareholders' equity of the Company (not including rights not providing control) will not be less than $ 100 million	The shareholders' equity of the Company (not including rights not providing control) will not be less than $ 150 million	This shareholders' equity of the Company = $217.75 million. **The Company complies with the financial covenant.**	Section 6.4(1) to the trust indenture of Bond A Section 6.12(1) to the trust indenture of Bond B
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%.	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 27%.	This shareholders' equity of the Company = $217.75 million; the total balance sheet = $719.76 million, so the ratio is 30.25% **The Company complies with the financial covenant.**	Section 6.4(2) to the trust indenture of Bond A Section 6.12(3) to the trust indenture of Bond B

NOTE 4 - COMPLIANCE WITH FINANCIAL COVENANTS RELATED TO DEBENTURES (Cont.)

A. (SERIES A & B)

Financial obligation Bond A	**Financial obligation Bond B**	**Manner of calculation of financial covenant and its results as of September 30, 2018**	**Comments**
The ratio of the adjusted net financial debt to adjusted EBITDA (for the past four quarters) will not exceed 13		Adjusted Net financial debt = $458.8 million; adjusted EBITDA= 63.529 million, so the ratio is 7.22. **The Company complies with the financial covenant.**	Section 6.4(3) to the trust indenture of Bond A Section 6.12(2) to the trust indenture of Bond B
N/A	The loan to Fair Market value of the collateral shall not exceed 75% An extension of the Bond will reduce the ratio to not exceed 65% of the Fair Market Value of the Bond	Adjusted Bond Balance as of September 30, 2018 = $100.446 million and the fair market value of the collateral = 156.93 million so that the ratio is 64.01%	N/A for Bond A Section 6.12(4) of the Deed of Trust of Bond B
The ratio of the adjusted net financial debt to adjusted EBITDA (for the past four quarters) will not exceed 12		Adjusted financial debt = $458.8 million; adjusted EBITDA = 63.529 million, so the ratio is 7.22. **The Company complies with the financial covenant.**	Section 5.4(1) to the trust indenture. Noncompliance with the financial covenant does not represent a breach but might lead to an interest rate adjustment. See also Note 8.F. of Bond A Section 5.3(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. Of Bond B.
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) will not be less than $ 180 million	The consolidated shareholders' equity of the Company (not including rights not providing control) = $217.75 million**. The Company complies with the financial covenant.**	Section 5.4(2) to the trust indenture of Bond A Section 5.3(4) to the trust indenture of Bond B. Lack of compliance with the financial covenant does not represent a breach on either Bond but might lead to an adjustment of the interest rate.
Limitation on distribution of dividends		The earnings available for distribution, according to the dividend limitation, is $11,525 thousand, as of September 30, 2018. The Company does not plan on issuing a distribution at this time.	Section 6.5 to the trust indenture of Bond A Section 6.13 to the trust indenture.

NOTE 4 - COMPLIANCE WITH FINANCIAL COVENANTS RELATED TO DEBENTURES (Cont.)

A. (SERIES A & B)

Increase in Interest rate during the report period

In addition to note 8F to the Company's 2017 annual consolidated financials, in the event that the rating agency downgrade the bond series, interest rate will increase by 0.25% for each notch of decrease up to a maximum increase of 1.25%, in March 2018 the Series A bond was downgraded from A rating to A- rating (one notch) as a result, starting on March 7th 2018 the Series A bond interest was increased to 6.65% (previously was 6.4%)

NOTE 5 - FINANCIAL INSTRUMENTS

Other than as detailed in the following table, the Group believes that the book value of the financial assets and liabilities presented at amortized cost in the interim consolidated financial statements are nearly identical to their fair value.

	Book value	Fair value	Book value	Fair value	Book value	Fair value
	As of Sept 30, 2018		As of Sept 30, 2017		As of Dec 31, 2017	
	(Unaudited)					
	In $ 0 0 0					
Financial liabilities						
Debentures (1)	169,200	175,047	88,117	97,001	89,877	108,086
Liabilities for leases (2)	8,309	8,309	8,529	8,529	8,554	8,554
Long-term loans at fixed interest (3)	277,794	262,003	274,046	284,988	269,573	296,425
	454,847	**445,359**	**370,046**	**390,518**	**368,004**	**413,065**

(1) Quoted price according to the price of the debentures on the stock exchange as of the date of the statement of financial position.

(2) In order to estimate the fair value as of September 30, 2018, the Company used a capitalization rate of 10.48% (September 30, 2018- 10.48), which was estimated based upon the opinion of an outside appraiser.

(3) The estimated fair value of the long-term loans bearing fixed interest was estimated based upon the calculation of the present value of cash flows according to the following interest rates:

	September 30		December 31
	2 0 1 8	2 0 1 7	2 0 1 7
	%	%	%
	(Unaudited)		
HUD loans	4.11%	3.43%	3.43%
Bank loan and seller's note	5.48%	4.5%	5.37%

NOTE 6 - ADDITIONAL INFORMATION AND OCCURRENCES DURING AND SUBSEQUENT TO THE REPORTING PERIOD

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

Prior tenant of four of the Company's assets in Texas and Oklahoma, which is not a related party, experienced cash flow issues and could not make the rent payments starting in November 2016 (for more details, see note 7i of the 2017 annual financials). In accordance with lease agreement with the prior tenant, the owners of the prior tenants signed personal guarantees to secure the rent payment. On April 23rd, the Company entered into a settlement agreement with the principals of the defaulted operator which will include all of the guarantors' liabilities including the loan mentioned below:

As of April 23, 2018, the Company provided the operator a working capital loan in the amount of $4.8 million, as part of the settlement agreement and after the assets were leased to other tenants, the Company wrote of the loan balance, which is being presented on the Income Statement as Other Expenses.

As part of the settlement agreement the guarantors signed on two notes totaling $7,244 thousand which will be paid over a period of 14 years. $6.5 million dollars will be paid over a period of 14 years (until June 2032) in a way that $6 million Dollars of that amount will bear 2.5% interest ($0.5 million does not bear interest). During the first seven years the note will be interest only. At the end of the seventh year there will be a $500 thousand principal payment. Starting from the eighth year the residual $6 million Dollars will be paid in equal monthly installment of principal and interest based on a 25 years amortization. At maturity, the principal outstanding amount of approximately $4.7 million Dollar will be paid as a lump sum balloon payment. In addition, the guarantors signed a second note in the amount of $744 thousand Dollars at 10% annual interest that will be paid at or before September 30th 2019. As of the publication of the financials, there have been a total of eight timely interest payments in the total amount of $100 thousand.

To secure the notes payments, the obligors on the new notes agreed to a few restrictions on asset transferring until the note maturity. In addition, the notes are guaranteed by the obligors' management company, which is still managing a few skilled nursing facilities. As part of the settlement the guarantors/obligors signed an agreed stipulated final judgment in the amount of $13.25 million dollars that will be filed with court if they default on the new notes. As part of the settlement agreement the personal guarantees were replaced by the notes, and the Texas Oklahoma master lease was terminated.

Although, the Company perceives that the loan is collectable, the Company feels art this stage there may be some uncertainty. Therefore, the Company recorded a net balance of $2.0 million for the settlement notes which represents a present value of future capitalized proceeds at a discount rate of 19.5%. $0.7 is presenting under current assets and the balance was presented on the long-term assets.

NOTE 6 - ADDITIONAL INFORMATION AND OCCURRENCES DURING AND SUBSEQUENT TO THE REPORTING PERIOD (cont.)

B. Kentucky transaction B

In March 2018, the Company entered into an agreement with a third party to buy a skilled nursing facility in the State of Kentucky, USA. The purchase agreement is for $6.5 million. As a down payment on the purchase the company paid in March 2018 $325 thousand in security deposit. On May 1, 2018 the company completed the acquisition of the asset and signed on a lease agreement. The property is part of the Kentucky Master lease that include 3 other properties. The Master lease is a ten years lease with two 5 years extensions and an annual rent escalation of 3%. Rent payment allocated to this property during the first year will be $650,000.

C. Kentucky transaction C

In March 2018, the Company entered into an agreement with a third party for acquisition of ownership rights in a nursing home in Kentucky, USA, for a total consideration of $ 4.45 million On September 1, 2018, the Company completed the acquisition of the property in cash and signed a rental agreement. The property is part of the Kentucky Master lease that include 3 other properties. The Master lease is a ten years lease with two 5 years extensions and an annual rent escalation of 3%. The first-year rent is $ 445,000.

D. Sale of the Medical Office Building in Indiana

On March 30, 2018, the Company entered into an agreement with a third party to sell one of its assets which is being used as a Medical Office Building (1101 Glendale BLVD) in the State of Indiana. The sale agreement is for $6.15 million. as a result, this building was classified as Investment Property Available for sale and the company realized $1,450 thousand in profits resulting from the sale in the first quarter of 2018. As of the approval of these financial statements the deal was not yet completed and we are not certain that the deal will ever close.

E. Purchase of Skyline Entities

In June 2018, the Company signed an agreement with an unrelated third party to purchase 21 properties. Of these, ten are in Arkansas, five are in Massachusetts. To the best of the Company's knowledge, the seller of these facilities, experienced a global cash flow problem, which caused a possibility of losing their facilities licenses.

On August 30th, 2018, the transaction, with respect to nine properties in Arkansas was completed in exchange of paying off the debt on these properties, of which, $37 million was bank debt and approximately $1 million was a seller note. The Seller's note was paid off in October 2018. The Company signed a lease agreement with the seller's operating entities that are not related to the controlling shareholders of the Company. According to the lease, the rent for the first year is $6,152,000. The agreement is for a period of ten-year lease with two five-year renewal options and an annual increase of 3% per year. As soon as the State of Arkansas will issue the license to the controlling shareholders' entities, the lease will be updated in a way that the new operator will be the tenants under the same terms.

NOTE 6 - ADDITIONAL INFORMATION AND OCCURRENCES DURING AND SUBSEQUENT TO THE REPORTING PERIOD (cont.)

E. Purchase of Skyline Entities (Cont.)

The fair value of the nine Arkansas properties, based on independent appraiser, is $64.7 million. The appraiser relied on the fact that new lease to be in full force and that the operators' will be stabilize and improve the performance. The Company choose to record the value of the Arkansas assets at $43.7 million, which reflects a premium of 15 % of the purchase price, for the following reasons:

a. The Seller was a desperate seller due to severe global cash flow issues and due to problems encountered by other regulators on other facilities, for the amount of the debt on the properties. Therefore, the Company's position, the purchase price represents bargain purchase and does not represent the fair value of the assets.
b. The seller previously purchased the assets in Arkansas in 2016 for $55 million, which is at 44% higher than the current consideration being paid by the Company.
c. During the negotiations to purchase the assets and until the closing, the Company was exposed to the actual performance of the assets, including the improvement that they went through.

The Company will continue to review and monitor this matter. Accordingly, as of the date of acquisition, the Company recorded a gain of $5.7 million.

In regards to the tenth property in Arkansas, as of the date of the approval of these financials, the Company is in process of acquiring the asset for $6.85 million. As of September 30, 2018, the Company purchased the first mortgage on the building for $3.1 million (presented as other long-term receivable), which on October 31, 2018 was sold to a bank for the full amount. Simultaneously, with the mortgage sale, the Company deposited $685 thousand as a non-refundable down payment that will be applied to the purchase. Closing is schedule to no later than December 31, 2018. At closing this property will be added to the existing master lease with the other 9 Arkansas facilities and rent for the first year will increase from $6,152 thousand to $6,888 thousand. Regarding the main sources of financing for the purchase of the properties, see Note 6.F. below.

As of today, the Company has acquired the first mortgage on the five properties in Massachusetts for a total of $7.475 million. The purchase of the mortgages was done through the Company's means, as well as a third-party loan of approximately $1.2 million of third-party debt, which is due Feb 2019. As of the date of the approval of these financials, the company is negotiating the purchase of all of the five facilities in exchange of the debt. The Company intends to enter into a lease agreement for the acquired properties with an operating company that is unaffiliated with The Company. Rental income of the first year of the lease will be $1 million. The lease is a ten-year lease with two five-year renewals with annual escalation of 2.5%.

NOTE 6 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

E. Purchase of Skyline Entities (Cont.)

With respect to the other six properties included in the original Skyline agreement, The Company is not purchasing them at this time. The Company's controlling shareholders announced that they are considering their acquisition independently (not through the Company). Such acquisition, if it is carried out, will be subject to an activity delineation mechanism to which the controlling shareholders have undertaken towards the Company. On August 9 and August 16, 2018, the Company's Board of Directors and Audit Committee, respectively, approved the decision of the Company's controlling shareholders.

F. Offering of debentures (Series B)

Amount and repayment dates- in April 2018, the Company raised 239.3 million Shekels in Bond Series B for a net amount of 234.4 million Shekel, after raising costs of NIS 4.9 million. The debentures are repayable in three annual payments on March 31 of each of the years 2020 through 2022, in a manner that each of the first 2 payments on account of the principal will represent 10% of the principal of the par value of the debentures, and the last payment on account of the principal will represent 80% of the principal of the par value of the debentures. In view of this, the average duration of the debentures is 3.52 years.

Interest rate - the debentures are not linked to the Consumer Price Index and they bear nominal interest (unlinked) at a rate not to exceed 4.95%. The effective interest rate on the debentures is 5.88%. The first interest payment will be on September 30, 2018 and, subsequently, the interest will be paid once each half-year.

Adjustment to Interest Rates - To the extent that the shareholders' equity of the Company (not including owners of rights not providing control) will be less than $ 180 million, or the ratio of the adjusted net financial debt to adjusted EBITDA (for the latest four quarters) will exceed 12, or Equity to Total Assets will be below 27%, or outstanding bond amount to property value will be more than 75%, the interest on the debentures will rise by an additional 0.25% 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).

Additionally, if a decline in the rating of the debentures should take place, then for each notch, the interest will be increased by 0.25% per year, up to a maximum increment of 1.5% 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 has 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 covenant required, the interest rate will be decreased so that its rate will not be lower than the denominated interest rate (4.95%).

NOTE 6 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

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

Collateral- the debentures are secured by first lien on 10 of the Company's buildings in the total amount of $104 million. In addition, the debenture is secured by an interest cushion, according to which a deposit will be made with the trustee and for the benefit of the debenture holders in the amount equivalent to six-month interest payment on the debentures. 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 registered general and specific liens on their assets. Based on the Deed of Trust the company can take out properties from the collateral (in case of HUD refinancing) or to add properties and increase the Bond series as long as total debt to asset value is not more than 65%. The Company can extend the Series up to 500 million Shekels

Use of proceeds – The company used $45.6 million of the proceeds to pay off bank debt, $3.1 million was used to cover issuance cost and interest cushion with the trustee, and $18.6 million was left with the trustee to pay off the July 1st 2018 payment on Bond Series A

Financial covenants- See note 4 above. 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 B).

Hedge of the debentures-in May 2018, the Company entered into a hedge transaction with a bank to which the Company has a "put" option vis-à-vis the bank in an amount of $ 67 million, which becomes effective at an exchange rate of NIS 3.2 to each dollar. The options are valid until November 29, 2018.

Series B extension- in August 2018 the Company expanded Series B debentures through a private placement and issued 125 million Shekels in Bonds for a net proceeds of 121.2 million shekels after 1.25 million shekels in issuance expenses.

Collateral- the debentures are secured by first lien on 9 buildings that the company purchased as part of the Skyline deal, and one property that the Company acquired in May 2018. Total value of collateral is 50.2 million. (see note 6 E above)

Use of proceeds – The expansion proceeds, except for expenses related to an issuance, was used for the acquisition of Skyline assets - see also Note 6.E. above.

Hedge of the debentures- The Company entered into a hedge transaction with a bank to which the Company purchased a "put" option vis-à-vis the bank in an amount equal to the gross amount of the expansion issuance which will become effective at an exchange rate of NIS 3.2 to each dollar. The options will be valid until November 29th 2018.

G. Refinance of conventional mortgages

In July 2018 the Company refinanced two mortgages in the total amount of $9.2 million. The new loans are 30 years loans guaranteed by HUD and carry 4.1% fixed rate interest. These loans refinanced 2 short term mortgages.

NOTE 6 - LOANS FROM FINANCIAL AND OTHER ENTITIES (CONT.)

H. Purchase of two skilled nursing facilities in Illinois

The Company leases and sub-leased classified as operational leases two skilled nursing facilities in the State of Illinois (totaling 361 beds). The lease rights are classified as Properties for investment and are being treated as financial leases, where the company has an option to buy the buildings.

On October 9th, 2018 the Board of Director gave the approval to the Company to exercise the option and to acquire the deed on these two properties for the total amount of $5.5 million. $3.4 million of the total purchase will be paid by the Company in cash, and $2.1 million will be paid as a seller note at 5% interest over a period of 14 years. Starting in January 1, 2016 these two assets were leased by the Company and were sub-leased to operator that are controlled by the Company’s controlling shareholders under a 10 years lease with two five years options. The monthly rent payment the Company receives under the lease is $124 thousand, that lease is a master lease that include one other asset the Company owns. After closing the deal, the lease agreement will not change.