



Table of Contents

	<u>PAGE</u>
CONSOLIDATED FINANCIAL STATEMENTS	
Pro-Forma Consolidated Balance Sheets as of March 31, 2018 (Unaudited) and December 31, 2017	3
Pro-Forma Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017 (unaudited)	4
Pro-Forma Consolidated Statements of Stockholder's Equity for the three months ended March 31, 2018 (unaudited) and for the year ended December 31, 2017	5
Pro-Forma Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017 (unaudited)	6
Notes to Pro-Forma Consolidated Unaudited Financial Statements	7-35
Appendix to Pro-Forma Consolidated Financial Statements	36-37

REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Strawberry Fields Real Estate Holdings, Inc.

We have reviewed the accompanying pro forma consolidated balance sheets of Strawberry Fields Real Estate Holdings, Inc. and its subsidiaries as of March 31, 2018, and the related pro forma consolidated interim statements of operations, changes in stockholders' equity and cash flows for the three month periods ended March 31, 2018 and 2017. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the generally accepted auditing standards (United States), the pro forma consolidated balance sheet of Strawberry Fields Real Estate Holdings, Inc. as of December 31, 2017, and the related pro forma consolidated statements of operations, stockholders' equity, and cash flows for the period then ended and in our report dated April 10, 2018, we expressed an unqualified opinion, on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.


/s/ Weinstein & Co. C.P.A. (ISR)

Jerusalem, Israel

May 22, 2018



STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES
PRO-FORMA CONSOLIDATED BALANCE SHEETS (Amounts in 000's, except share data)

	March 31, 2018	December 31, 2017
	(Unaudited)	
<u>Current assets</u>		
Cash and cash equivalents	22,559	18,213
Restricted cash and investments	4,249	8,097
Accounts receivable	4,343	5,415
Income receivable – averaging of rent due to fixed accelerated lease terms	3,631	4,015
Investment Available for Sale	3,328	-
Prepaid expenses and other	166	-
	38,276	35,740
<u>Long-Term Assets:</u>		
Restricted cash and investments	13,373	14,043
Property and equipment, net	363,100	371,182
Goodwill, other intangible assets and lease rights	15,583	15,900
Deferred financing expenses	6,137	6,291
Deferred tax asset	32,522	32,890
Income receivable – averaging of rent due to fixed accelerated lease terms	9,276	7,693
	439,991	447,999
Total assets	478,267	483,739
<u>Current liabilities</u>		
Current maturity of bonds	15,977	16,193
Current maturities of long-term debt	70,216	9,263
Accounts Payable	27	24
Lease liabilities	131	127
Accrued expenses and interest	8,223	11,433
	94,574	37,040
<u>Long-term notes payable and other debt, net of current maturities</u>		
Bonds, net of discounts	72,799	73,684
Senior debt, net of discounts	293,488	356,397
Lease liabilities	3,979	4,013
Other long-term liabilities	5,105	4,832
Long Term Liabilities	375,371	438,926
Total Liabilities	469,945	475,966
<u>Equity</u>		
Common shares \$0.0001 par value, 20,000,000 shares authorized; no shares were issued and outstanding as of March 31, 2018 and December 31, 2017	-	-
Paid In Capital	62,287	62,655
Other comprehensive income	(5,366)	(6,360)
Accumulated Deficit	(48,599)	(48,522)
	8,322	7,773
Total liabilities and equity	478,267	483,739

Director

Date

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES



PRO-FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in 000's, except share data)

	For the period of three months ended March 31,	
	2 0 1 8	2 0 1 7
	(Unaudited)	
Revenues:		
Rental revenues	14,850	14,059
Reserve for Doubtful Accounts	(211)	(1,751)
Total revenues	<u>14,639</u>	<u>12,308</u>
Expenses:		
Depreciation	4,754	4,619
Amortization	317	317
General and administrative expenses	858	537
Property taxes	316	285
Facility rent expense	171	171
Property insurance	3	(7)
Total expenses	<u>(6,419)</u>	<u>(5,922)</u>
Income from operations	8,220	6,386
Other Income (Expense)		
Interest Expense, net	(5,113)	(7,019)
FAS 91	(154)	(374)
MIP Insurance	(330)	(310)
Total Interest expenses	<u>(5,597)</u>	<u>(7,703)</u>
Discount in Fair Market Value of Loan	(1,300)	-
Unrealized Gain (Loss) on Derivatives	-	3,403
Total Other Income (Expenses), net	<u>(1,300)</u>	<u>3,403</u>
Profit (Loss) for the year	<u>1,323</u>	<u>2,086</u>
Profit (Loss) per share - basic and diluted:		
Net earnings (loss) per share attributable to common stockholders	<u>0</u>	<u>0</u>
Weighted average number of common shares	<u>0</u>	<u>0</u>

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



STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES
PRO-FORMA CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in 000's, except share data)

	<u>Share capital</u>	<u>Paid-in capital</u>	<u>Other comprehensive income</u>	<u>Accumulated deficit</u>	<u>Total</u>
			<u>In \$ 0 0 0</u>		
Balance as of January 1, 2017	-	76,293	60	(42,813)	33,540
Distributions	-	-	-	(6,750)	(6,750)
Equity Investment	-	-	-	-	-
Deferred tax effects	-	(13,638)	-	-	(13,638)
Gain (Loss) for the year	-	-	(6,420)	1,041	(5,379)
Balance as of December 31, 2017	<u>-</u>	<u>62,655</u>	<u>(6,360)</u>	<u>(48,522)</u>	<u>7,773</u>
Gain (Loss) for the period	-	-	994	1,323	2,317
Deferred tax effects	-	(368)	-	-	(368)
Dividends paid	-	-	-	(1,400)	(1,400)
Balance as of March 31, 2018	<u>-</u>	<u>62,287</u>	<u>(5,366)</u>	<u>(48,599)</u>	<u>8,322</u>

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



STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

PRO-FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000's)

	For the period of three months ended March 31	
	2018	2017
Cash flows from operating activities:		
Net Gain (Loss)	1,323	2,086
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	5,071	4,937
Decrease (Increase) in Income to receive	(1,199)	41
FAS 91	154	374
Decrease (Increase) in Accounts receivable	906	(2,085)
Decrease (Increase) Accounts receivable - related parties	-	899
Changes in other comprehensive income	994	(4,945)
Currency exchange	(1,101)	5,220
Increase (Decrease) in Accounts payable and accrued liabilities	(2,934)	(5,112)
Net cash provided by operating activities	<u>3,214</u>	<u>1,415</u>
Cash flow from investing activities:		
Acquisition of property and equipment	-	(16)
Decrease (Increase) in restricted deposits	4,518	2,308
Net cash used for investing activities	<u>4,518</u>	<u>2,292</u>
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Proceeds from mortgage notes payable	-	4,409
Repayment of mortgages	(1,869)	(4,415)
Increase (Decrease) in Loans from others	(87)	(82)
Increase (Pay-down) Lease liabilities	(30)	(27)
Increase (Decrease) in Due to related parties	-	(1,501)
Dividend Distribution	(1,400)	-
Net cash provided by (used for) financing activities	<u>(3,386)</u>	<u>(1,616)</u>
Increase (decrease) in cash and cash equivalents	4,346	2,091
Balance of cash and cash equivalents at beginning of period	18,213	24,373
Balance of cash and cash equivalents at end of period	<u>22,559</u>	<u>26,464</u>
Non-cash transactions:		
Transfer of Assets from Parent Company	-	-
Transfer of Liabilities from Parent Company	-	-
Additional information:		
Interest paid (including refinancing costs)	5,527	4,375

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

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Business

Overview

Strawberry Fields Real Estate Holdings Inc. (the "Company"), is a Delaware corporation organized on June 30, 2017. Since establishment, the Company has had no operations.

Subject to completion of registration of the shares, Strawberry Fields REIT, LLC (the "Parent Company"), the controlling shareholder of the Company, will transfer to the Company all of the shares of Strawberry Fields REIT, Ltd. ("SF REIT Ltd."), a wholly-owned company organized under the laws of the British Virgin Islands. SF REIT Ltd. owns entities engaged in renting and leasing buildings used as nursing homes, which are investment property of the Company. In addition, the loans and the lease obligations which are financing the investments in that investment property will be transferred to the Company.

SF REIT Ltd. invests primarily in real estate serving the healthcare industry in the United States ("U.S."). The Company acquires, develops, leases, manages and disposes of healthcare real estate and provides financing to healthcare providers. The Company's diverse portfolio is comprised of investments in the following reportable healthcare segments: (i) Skilled Nursing Facilities (SNF), (ii) Long Term Acute Care Hospitals (LTACH), (iii) Medical Office Buildings (MOB).

Basis of Presentation

The Company maintains its accounting records on an accrual basis in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

These financial statements are presented in US dollars.

Pro forma financial statements

The pro forma consolidated financial statements of the Company have been prepared in a manner reflecting the transferred entities from the controlling shareholders as it were carried out on the beginning of the earliest period presented in the pro forma consolidated financial statements (January 1, 2014), based on the equity ownership in these entities on that date. With respect to entities established after January 1, 2014, the pro forma consolidated financial statements reflect the assets, liabilities and operations of those entities commencing from the date of their establishment. Nursing homes to which the transferred entities held purchase options, which were exercised during the periods presented in the pro forma financial statements and as to which those entities became owners of those nursing homes, are presented, commencing from January 1, 2014, as properties under financing leases, this under the assumption that the options incorporated a bargain price. In addition, the pro forma consolidated financial statements include an appropriate assessment of the property management and operational fees, and general and administrative expenses, which were provided to the Company by its controlling shareholders in relation to the operations presented in these financial statements. As a result, the pro forma financial statements as of December 31, 2016 include the real estate properties held by the transferred entities as mentioned above, as well as all of the loans and lease obligations related to them, under the assumption that the U.S. Housing and Urban Development Agency ("HUD"), which has guaranteed part of the loans received by the Company, gave its consent to transferring the properties to the Company, if that it is required. (See Note 3. for additional explanation).

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Business (Cont.)

The Company through its subsidiaries owns skilled nursing facilities, a Medical Office Building, and Acute Care Hospitals in the states of Illinois, Indiana, Michigan, Texas, Ohio, Tennessee, Kentucky, and Oklahoma. As of March 31, 2018, the Company owned or owned the lease rights of 58 buildings comprised of 57 skilled nursing facilities, which four of them include Long term Acute Care Hospitals, and one Medical Office Building facility totaling approximately 7,680 beds. Of the 58 facilities, the Company owned 54 facilities, and leased and subleased four facilities.

Acquisitions and Refinance

Settlement agreement with prior tenant

Based on the lease agreement with prior tenant, the owners of the tenant signed personal guarantees to guarantee the lease payments. In April 2018 the Company signed a settlement agreement with the guarantors. Based on the agreement, the guarantors signed on two notes for the total amount of \$7,244 million Dollars which will be paid over a period of 14 years as follow:

\$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. 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 of 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.

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 a confession of judgment in the amount of \$13.25 million Dollars that will be file 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.

During 2017, the Parent Company refinanced \$31.4 million in loans under the HUD program.

During 2016, the Parent Company acquired the ownership rights in eight new nursing homes (of which seven are in Tennessee and one is in Kentucky, in consideration for a total of 73.9 million. The acquisitions were financed by bank loans totaling \$44.3 million.

During 2016, the Parent Company refinanced \$56.6 million in loans under the HUD program.

Dispositions

In February 2016, the Parent Company decided to give up a non-material nursing home in the State of Illinois, and to return its operating license to the State. In April 2016, the Parent Company sold the building for \$300,000.

Other significant events

SF REIT Ltd., a fully owned subsidiary of the Parent Company was established and incorporated in February 2015 as a private company limited in shares, according to the Business Companies Act of the British Virgin Islands (BVI Companies Act, 2004). In November 2015, SF REIT Ltd. completed an offering of debentures (Series A) with par value of NIS 265.3 million (\$68.4 million), registered for trading on the Tel Aviv Stock Exchange. For additional information regarding the debentures, see Note 7. During September 2016, SF REIT Ltd. completed the offering of additional Series A debentures with a par value of 70.0 million (\$19.3 million).

Concurrently with completion of registration of those debentures, the parent Company transferred the equity interests in all of its subsidiaries to SF REIT Ltd. In exchange for all of the shares of SF REIT Ltd.

Fiscal Year End

The Corporation has adopted a fiscal year end of December 31.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Unaudited Interim Financial Statements (Cont.)

Unaudited Interim Financial Statements

The interim financial statements of the Company as of March 31, 2018, and for the periods then ended are unaudited. However, in the opinion of management, the interim financial statements include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 2018, and the results of its operations for the three months and its cash flows for the three-month period ended then.

These results are not necessarily indicative of the results expected for the calendar three month ended march 31, 2018. The accompanying financial statements and notes thereto do not reflect all disclosures required under accounting principles generally accepted in the United States. Refer to the Company's audited financial statements as of December 31, 2017.

NOTE 2. Summary of Significant Accounting Policies

Use of Estimates

Management is required to make estimates and assumptions in the preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from management's estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

All entities which the Company holds are wholly-owned by the Company.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term investments with original maturities of three months or less when purchased.

Real Estate

We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the fair value of each component. In determining fair value, we use current appraisals or other third party valuations. The most significant components of our allocations are typically the allocation of fair value to land and buildings and, for certain of our acquisitions, in place leases and other intangible assets. In the case of the fair value of buildings and the allocation of value to land and other intangibles, the estimates of the values of these components will affect the amount of depreciation and amortization we record over the estimated useful life of the property acquired or the remaining lease term. In the case of the value of in place leases, we make best estimates based on the evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease up periods, market conditions and costs to execute similar leases. These assumptions affect the amount of future revenue that we will recognize over the remaining lease term for the acquired in place leases.

We evaluate each purchase transaction to determine whether the acquired assets meet the definition of a business. Transaction costs related to acquisitions that are not deemed to be businesses are included in the cost basis of the acquired assets, while transaction costs related to acquisitions that are deemed to be businesses are expensed as incurred.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

Revenue Recognition

Rental income from operating leases is generally recognized on a straight-line basis over the terms of the leases. Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of two methods depending on specific provisions of each lease as follows:

- (i) a specified annual increase over the prior year's rent, generally between 1.0% and 3.0%;
- (ii) a calculation based on the Consumer Price Index; or
- (iii) specific dollar increases.

The FASB does not provide for the recognition of contingent revenue until all possible contingencies have been eliminated. We consider the operating history of the lessee and the general condition of the industry when evaluating whether all possible contingencies have been eliminated and have historically, and expect in the future, to not include contingent rents as income until received. We follow a policy related to rental income whereby we consider a lease to be non-performing after 60 days of non-payment of past due amounts and do not recognize unpaid rental income from that lease until the amounts have been received.

Rental revenues relating to non-contingent leases that contain specified rental increases over the life of the lease are recognized on the straight-line basis. Recognizing income on a straight-line basis requires us to calculate the total non-contingent rent containing specified rental increases over the life of the lease and to recognize the revenue evenly over that life. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in our consolidated balance sheet. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectability of straight-line rent in accordance with the applicable accounting standards and our reserve policy. If the lessee becomes delinquent in rent owed under the terms of the lease, we may provide a reserve against the recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (or ASU 2014-09), *Revenue from Contracts with Customers: Topic 606*. ASU 2014-09 provides for a single comprehensive principles based standard for the recognition of revenue across all industries through the application of the following five-step process:

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

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

ASU 2014-09 requires expanded disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard, effective on January 1, 2018, permits either the retrospective or cumulative effects transition method and allows for early adoption on January 1, 2017. We expect to adopt this standard using the modified retrospective adoption method on January 1, 2018. We are currently evaluating the impact of this ASU but we do not believe this standard will have a material impact on our results of operations or financial condition, as a substantial portion of our revenues consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

Allowance for Doubtful Accounts

The Company evaluates the liquidity and creditworthiness of its tenants, operators and borrowers on a monthly and quarterly basis. The Company's evaluation considers industry and economic conditions, individual and portfolio property performance, credit enhancements, liquidity and other factors. The Company's tenants, borrowers and operators furnish property, portfolio and guarantor/operator-level financial statements, among other information, on a monthly or quarterly basis; the Company utilizes this financial information to calculate the lease or debt service coverages that it uses as a primary credit quality indicator. Lease and debt service coverage information is evaluated together with other property, portfolio and operator performance information, including revenue, expense, net operating income, occupancy, rental rate, reimbursement trends, capital expenditures and EBITDA (defined as earnings before interest, tax, and depreciation and amortization), along with other liquidity measures. The Company evaluates, on a monthly basis or immediately upon a significant change in circumstance, its tenants', operators' and borrowers' ability to service their obligations with the Company.

The Company maintains an allowance for doubtful accounts for straight-line rent receivables resulting from tenants' inability to make contractual rent and tenant recovery payments or lease defaults. For straight-line rent receivables, the Company's assessment is based on amounts estimated to be recoverable over the lease term.

Impairment of Long-Lived Assets and Goodwill

The Company assesses the carrying value of real estate assets and related intangibles ("real estate assets") when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company tests its real estate assets for impairment by comparing the sum of the expected future undiscounted cash flows to the carrying value of the real estate assets. The expected future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate assets is greater than their fair value.

Goodwill is tested for impairment at least annually based on certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. Potential impairment indicators include a significant decline in real estate values, significant restructuring plans, current macroeconomic conditions, state of the equity and capital markets or a significant decline in the Company's market capitalization. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company applies the required two-step quantitative approach. The quantitative procedures of the two-step approach (i) compare the fair value of a reporting unit with its carrying value, including goodwill, and, if necessary, (ii) compare the implied fair value of reporting unit goodwill with the carrying value as if it had been acquired in a business combination at the date of the impairment test. The excess fair value of the reporting unit over the fair

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

value of assets and liabilities, excluding goodwill, is the implied value of goodwill and is used to determine the impairment amount, if any. The Company has selected the fourth quarter of each fiscal year to perform its annual impairment test.

Restricted Cash

Restricted cash primarily consists of amounts held by mortgage lenders to provide for (i) real estate tax expenditures, tenant improvements and capital expenditures, (ii) security deposits, and (iii) net proceeds from property sales that were executed as tax-deferred dispositions.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, mortgage loans receivable, marketable debt securities and operating leases on owned properties. Our financial instruments, mortgage loans receivable and operating leases are subject to the possibility of loss of carrying value as a result of the failure of other parties to perform according to their contractual obligations or changes in market prices which may make the instrument less valuable.

Cash and cash equivalents, restricted cash and restricted investments are held with various financial institutions. From time to time, these balances exceed the federally insured limits. These balances are maintained with high quality financial institutions which management believes limits the risk. We obtain various collateral and other protective rights, and continually monitor these rights, in order to reduce such possibilities of loss. In addition, we provide reserves for potential losses based upon management's periodic review of our portfolio. As of June 30, 2017 and December 31, 2016, no provisions have been made.

Market Concentration Risk

The Company owns buildings in 8 states the majority of which are in Illinois (25 buildings or 44% of total buildings; 4,371 Skilled Nursing beds or 58.8% of total beds) and Indiana (14 buildings or 24.5% of total buildings; 1,324 Skilled Nursing beds or 17.8% of total beds). Since tenant revenue is primarily generated from Medicare and Medicaid, the operations of the Company are indirectly subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, Centers for Medicare and Medicaid Services, and the Department of Health and Aging in all states in which the Company operates. Such administrative directives, rules and regulations, including budgetary reimbursement funding, are subject to change by an act of Congress, the passage of laws by the General Assembly or an administrative change mandated by one of the executive branch agencies. Such changes may occur with little notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with a change.

Derivatives and Hedging

During its normal course of business, the Company uses certain types of derivative instruments for the purpose of managing interest rate and foreign currency risk. To qualify for hedge accounting, derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions, must be, and are expected to remain, probable of occurring in accordance with the Company's related assertions.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

Derivatives and Hedging (Cont.)

The Company recognizes all derivative instruments, including embedded derivatives that are required to be bifurcated, as assets or liabilities in the consolidated balance sheets at fair value. Changes in fair value of derivative instruments that are not designated in hedging relationships or that do not meet the criteria of hedge accounting are recognized in earnings. For derivative instruments designated in qualifying cash flow hedging relationships, changes in fair value related to the effective portion of the derivative instruments are recognized in accumulated other comprehensive income (loss), whereas changes in fair value of the ineffective portion are recognized in earnings.

Using certain of its New Israeli Shekel (“NIS”) denominated debt, the Company applies net investment hedge accounting to hedge the foreign currency exposure from its net investment in NIS-functional subsidiaries. The variability of the NIS-denominated debt due to changes in the NIS to U.S. dollar (“USD”) exchange rate (“remeasurement value”) is recognized as part of the cumulative translation adjustment component of accumulated other comprehensive income (loss).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivative instruments that are part of a hedging relationship to specific forecasted transactions as well as recognized obligations or assets in the consolidated balance sheets. The Company also assesses and documents, both at inception of the hedging relationship and on a quarterly basis thereafter, whether the derivative instruments are highly effective in offsetting the designated risks associated with the respective hedged items. If it is determined that a derivative instrument ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, the Company discontinues its cash flow hedge accounting prospectively and records the appropriate adjustment to earnings based on the current fair value of the derivative instrument.

Income Taxes

Income taxes are accounted for in accordance with ASC Topic 740, “Income Taxes.” Under the asset and liability method, deferred tax assets and liabilities are recognized for the future consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are recovered or settled. Valuation allowances for deferred tax assets are established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

All changes in the tax bases of assets and liabilities caused by transactions among or with shareholders are accounted for in accordance with ASC Topic 740-20-45-11. Deferred taxes shall be included in equity including the effect of valuation allowances initially required upon recognition of any related deferred tax assets. Changes in valuation allowances occurring in subsequent periods shall be included in the income statement.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

Capital Raising Issuance Costs

Costs incurred in connection with the issuance of common shares are recorded as a reduction of additional paid-in capital. Debt issuance costs related to debt instruments excluding line of credit arrangements are deferred, recorded as a reduction of the related debt liability, and amortized to interest expense over the remaining term of the related debt liability utilizing the interest method. Debt issuance costs related to line of credit arrangements are deferred, included in other assets, and amortized to interest expense over the remaining term of the related line of credit arrangement utilizing the interest method.

Penalties incurred to extinguish debt and any remaining unamortized debt issuance costs, discounts and premiums are recognized as income or expense in the consolidated statements of operations at the time of extinguishment.

Segment Reporting

The FASB accounting guidance regarding disclosures about segments of an enterprise and related information establishes standards for the manner in which public business enterprises report information about operating segments. Our investment decisions in senior housing and health care properties, and resulting investments are managed as a single operating segment for internal reporting and for internal decision making purposes. Therefore, we have concluded that we operate as a single segment.

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies that are translated into U.S. dollars use exchange rates in effect at the end of the period, and revenues and expenses denominated in foreign currencies that are translated into U.S. dollars use average rates of exchange in effect during the related period. Gains or losses resulting from translation are included in accumulated other comprehensive income (loss), a component of stockholders' equity on the consolidated balance sheets. Gains or losses resulting from foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses are included in other income, net in the consolidated statements of operations.

Fair Value Measurement

The Company measures and discloses the fair value of nonfinancial and financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

- Level 1*—quoted prices for *identical* instruments in active markets;
- Level 2*—quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3*—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

The Company measures fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at fair value. When available, the Company utilizes quoted market prices from an independent third party source to determine fair value and classifies such items in Level 1. In instances where a market price is available, but the instrument is in an inactive or over-the-counter market, the Company consistently applies the dealer (market maker) pricing estimate and classifies the asset or liability in Level 2.

Fair Value Measurement (Cont.)

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads and/or market capitalization rates. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or Level 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by the Company include discounted cash flow and Black-Scholes valuation models. The Company also considers its counterparty's and own credit risk for derivative instruments and other liabilities measured at fair value. The Company has elected the mid-market pricing expedient when determining fair value.

Earnings per Share

Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period. The Company accounts for unvested share-based payment awards that contain non-forfeitable dividend rights or dividend equivalents (whether paid or unpaid) as participating securities, which are included in the computation of earnings per share pursuant to the two-class method. Diluted earnings per common share is calculated by including the effect of dilutive securities.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The amendments in ASU 2017-04 eliminate the current two-step approach used to test goodwill for impairment and require an entity to apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for fiscal years, including interim periods within, beginning after December 15, 2019 (upon the first goodwill impairment test performed during that fiscal year). Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. A reporting entity must apply the amendments in ASU 2017-04 using a prospective approach. The Company does not expect the adoption of ASU 2017-04 to have a material impact to its consolidated financial position or results of operations.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

Recent Accounting Pronouncements (Cont.)

In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business* (“ASU 2017-01”). The amendments in ASU 2017-01 provide an initial screen to determine if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, in which case, the transaction would be accounted for as an asset acquisition. In addition, ASU 2017-01 clarifies the requirements for a set of activities to be considered a business and narrows the definition of an output. ASU 2017-01 is effective for fiscal years, and interim periods within, beginning after December 15, 2017. Early adoption is permitted. A reporting entity must apply the amendments in ASU 2017-01 using a prospective approach. The Company plans to adopt ASU 2017-01 during the first quarter of 2017.

Upon adoption of ASU 2017-01, the Company expects to recognize a majority of its real estate acquisitions and dispositions as asset transactions rather than business combinations which will result in the capitalization of related third party transaction costs.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash* (“ASU 2016-18”). The amendments in ASU 2016-18 require an entity to reconcile and explain the period-over-period change in total cash, cash equivalents and restricted cash within its statements of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within, beginning after December 15, 2017. Early adoption is permitted. A reporting entity must apply the amendments in ASU 2016-18 using a full retrospective approach. The Company does not expect the adoption of ASU 2016-18 to have a material impact to its consolidated statements of cash flows as the Company does not have material restricted cash activity.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). The amendments in ASU 2016-15 are intended to clarify current guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within, beginning after December 15, 2017. Early adoption is permitted. A reporting entity must apply the amendments in ASU 2016-15 using a full retrospective approach. The Company is currently in compliance with substantially all of the clarifications in ASU 2016-15 and as such, the Company does not expect the adoption of ASU 2016-15 to have a material impact to its consolidated statements of cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amendments in ASU 2016-13 eliminate the “probable” initial threshold for recognition of credit losses in current accounting guidance and, instead, reflect an entity’s current estimate of all expected credit losses. Previously, when credit losses were measured under current accounting guidance, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss. ASU 2016-13 is effective for fiscal years, and interim periods within, beginning after December 15, 2019.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

Recent Accounting Pronouncements (Cont.)

Early adoption is permitted for fiscal years, and interim periods within, beginning after December 15, 2018. A reporting entity is required to apply the amendments in ASU 2016-13 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Upon adoption of ASU 2016-13, the Company is required to reassess its financing receivables, including direct finance leases and loans receivable, and expects that application of ASU 2016-13 may result in the Company recognizing credit losses at an earlier date than would otherwise be recognized under current accounting guidance. As such, the Company is still evaluating the impact of the adoption of ASU 2016-13 on January 1, 2020 to its consolidated financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 amends the current accounting for leases to (i) require lessees to put most leases on their balance sheets, but continue recognizing expenses on their income statements in a manner similar to requirements under current accounting guidance, (ii) eliminate current real estate specific lease provisions and (iii) modify the classification criteria and accounting for sales-type leases for lessors. ASU 2016-02 is effective for fiscal years, and interim periods within, beginning after December 15, 2018. Early adoption is permitted. The transition method required by ASU 2016-02 varies based on the specific amendment being adopted. As a result of adopting ASU 2016-02, the Company will recognize all of its operating leases for which it is the lessee, including corporate office leases and ground leases, on its consolidated balance sheets and will capitalize fewer legal costs related to the drafting and execution of its lease agreements. The Company is evaluating the impact of the adoption of ASU 2016-02 on January 1, 2019 to its consolidated financial position and results of operations.

Between May 2014 and May 2016, the FASB issued three ASUs changing the requirements for recognizing and reporting revenue (together, herein referred to as the “Revenue ASUs”): (i) ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), (ii) ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (“ASU 2016-08”) and (iii) ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”). ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2016-08 is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. ASU 2016-12 provides practical expedients and improvements on the previously narrow scope of ASU 2014-09. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU 2015-14”). ASU 2015-14 defers the effective date of ASU 2014-09 by one year to fiscal years, and interim periods within, beginning after December 15, 2017. All subsequent ASUs related to ASU 2014-09, including ASU 2016-08 and ASU 2016-12, assumed the deferred effective date enforced by ASU 2015-14. Early adoption of the Revenue ASUs is permitted for annual periods, and interim periods within, beginning after December 15, 2016. A reporting entity may apply the amendments in the Revenue ASUs using either a modified retrospective approach, by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or full retrospective approach.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies (cont.)

Recent Accounting Pronouncements (Cont.)

The Company is evaluating the complete impact of the adoption of the Revenue ASUs on January 1, 2018 to its consolidated financial position and results of operations. As the primary source of revenue for the Company is generated through leasing arrangements, which are excluded from the Revenue ASUs, the Company expects that it will be impacted in its recognition of non-lease revenue, such as certain resident fees in its RIDEA structures (a portion of which are not generated through leasing arrangements) and its recognition of real estate sale transactions. Under ASU 2014-09, revenue recognition for real estate sales is largely based on the transfer of control versus continuing involvement under current guidance. As a result, the Company generally expects that the new guidance will result in more transactions qualifying as sales of real estate and revenue being recognized at an earlier date than under current accounting guidance.

NOTE 3. RESTRICTED CASH AND INVESTMENTS

The following presents the Company's various restricted cash, escrow deposits and investments:

Amounts in (000's)	March 31,	December 31,
	2018	2017
	(Unaudited)	Audited
Interest cushion bonds escrow	-	-
MIP Escrow accounts	906	669
Other Escrow deposits	575	3,186
Property tax and Insurance escrow	2,768	4,242
Total current portion	4,249	8,097
Interest cushion bonds escrow	3,122	3,048
HUD replacement reserves	9,742	10,446
Collateral cash and certificates of deposit	11	11
Restricted investments for other debt obligations	498	538
Total noncurrent portion	13,373	14,043
Total restricted cash and investments	17,622	22,140

Interest Cushion bonds escrow—In November 2015, SF REIT Ltd. 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. Part of the Deed of Trust, SF REIT Ltd. committed to deposit a debt service cushion in an amount equal to 6 months of interest with the Trustee. (see *Note 7 - Notes Payable and Other Debt*).

MIP escrow— The Regulatory Agreements entered into in connection with the financing secured through HUD require monthly escrow deposits for Mortgage Insurance Premium on the HUD project assets.

Property tax and Insurance escrow—Several facilities are required to set funds aside for real estate taxes and insurance.

HUD replacement reserves—The Regulatory Agreements entered into in connection with the financing secured through HUD require monthly escrow deposits for replacement and improvement of the HUD project assets. A portion of the replacement reserves are required to be kept permanently until the loan is paid off. That portion is treated as a long term HUD Replacement Reserve.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. RESTRICTED CASH AND INVESTMENTS (cont.)

Restricted investments for other debt obligations—In compliance with certain financing and insurance agreements, the Company and certain wholly-owned subsidiaries of the Company are required to deposit cash held as collateral by the lender or in escrow with certain designated financial institutions. A few of the wholly-owned subsidiaries of SF REIT Ltd. loan agreements require monthly cash deposits to be held as additional collateral until the loan matures or is paid off.

NOTE 4. PROPERTY AND EQUIPMENT

Property and Equipment consist of the following:

(Amounts in 000's)	Estimated Useful Lives (Years)	March 31,	December 31,
		2018	2017
Buildings and improvements	8-42	358,588	358,588
Equipment and personal property	1-14	52,726	52,726
Land	—	44,754	44,754
		456,068	456,068
Less: accumulated depreciation		(89,640)	(84,886)
Property and equipment, net		366,428	371,182

For the three months period ended March 31, 2018 and for the year ended December 31, 2017, total depreciation expense was \$4.75 million and \$9.2 million, respectively.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

(Amounts in 000's)

	Goodwill including CON and bed license	Lease Rights	Total
<u>Balances, December 31, 2016</u>			
Gross	6,430	16,672	23,102
Accumulated amortization	(-)	(5,323)	(5,323)
Net carrying amount	6,430	11,349	24,364
<u>Amortization expense during year ended December 31, 2017</u>			
	(-)	(1,269)	(1,268)
<u>Balances December 31, 2017</u>			
Gross	5,820	16,672	22,492
Accumulated amortization	(-)	(6,592)	(6,591)
Net carrying amount	5,820	10,080	15,901
<u>Amortization expense during the period ended March 31, 2018</u>			
	(-)	(317)	(317)
<u>Balances, March 31, 2018</u>			
Gross	5,820	16,672	22,492
Accumulated amortization	(-)	(6,909)	(6,909)
Net carrying amount	5,820	9,763	15,583

Estimate amortization expense for all finite-lived intangible assets for each of the future years ending December 31 is as follows:

<u>Amounts in (000's)</u>	<u>Lease Rights</u>
2018	952
2019	1,269
2020	1,269
2021	1,269
Thereafter	5,004
Total	\$ 9,763

For the years ended December 31, 2017 the company determined impairment of \$610 thousand for the intangible asset Lease Rights due to sale of the associated building. For the period ended March 31, 2018 the Company determined that no impairment adjustment was required for goodwill.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. LEASES

As of March 31, 2018, the Company has leased fifty-three owned and subleased four leased skilled nursing and rehabilitation facilities to local operators in the states of Illinois, Indiana, Michigan, Ohio, Texas, Kentucky, Tennessee and Oklahoma with the operational capacity of approximately 7,527 licensed beds. The Company also leased four owned Long Term Acute Care Hospitals in Texas and Oklahoma with approximately 153 operational beds. Most of these properties are leased and or subleased on a triple net basis, meaning that the lessee (*i.e.*, operator of the property) is obligated under the lease or sublease, as applicable, for all liabilities of the property in respect to insurance, taxes and facility maintenance, as well as the lease or sublease payments, as applicable.

Each property is leased to a different tenant. None of the leases are material to the Company.

The following tables provide summary information regarding the facilities for the periods indicated:

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Cumulative number of facilities	58	58
Cumulative number of operational beds	7,680	7,680

<u>State</u>	<u>Number of</u> <u>Operational</u> <u>Beds/Units</u>	<u>Number of Facilities</u>		<u>Total</u>
		<u>Owned</u>	<u>Leased</u>	
Illinois	4,301	22	2	24
Indiana	1,388	14	2	16
Michigan	100	1	—	1
Ohio	237	4	-	4
Tennessee	606	7		7
Kentucky	348	2	-	2
Oklahoma (*)	137	1	—	1
Texas (*)	563	3	—	3
Total	7,680	54	4	58
<i>Facility Type</i>				
Skilled Nursing	7,527	53	4	57
LTACH	153			
Medical Office Building	NA	1	—	1
Total	7,680	54	4	58

(*) Each building is comprised of one Skilled Nursing and one Long Term Acute Hospital.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. LEASES (Cont.)

Operating Leases

Leased and Subleased Facilities to Third-Party Operators

The Company leases a total of 4 skilled nursing facilities on June 30, 2017, of which 2 are operational leases, and 2 are financial leases (as the Parent Company has the option to purchase those assets on the day the lease terminates for \$1). All four leases are under non-cancelable leases, most of which have initial lease terms of 10 to 12 years with no rent escalation clauses but with provisions for payments by the Company of real estate taxes, and insurance. For the period ended March 31 2018 and 2017 and the year ended December 31,2017, facility rent expense totaled \$0.17 million, \$0.17 million and \$0.68 million, respectively.

The following table provides summary information regarding the number of operational beds associated with leased and subleased facilities to third-parties as of March 31 and December 31:

	March 31,		December 31,
	2018	2017	2018
Cumulative number of facilities leased and subleased to third-parties	4	4	4
Cumulative number of operational beds	499	499	499
State	Number of operational beds	Total Leased and Subleased Facilities	
Illinois	361	2	
Indiana	138	2	
Total	<u>499</u>	<u>4</u>	

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. LEASES (Cont.)

Leased and Subleased Facilities to Third-Party Operators (Cont.)

Future minimum lease payments for each of the next five years ending December 31, are as follows:

	(Amounts in ('000s))
2019	683
2020	683
2021	683
2022	683
2023	683
Thereafter	5,862
Total	<u>9,277</u>

NOTE 7. NOTES PAYABLE AND OTHER DEBT

A. Current maturities

	Weighted interest rate- 3/31/2018	As of March 31, 2018	As of December, 31 2017
	%	In \$	000
Current Maturities of HUD Guaranteed Loans	3.61%	5,778	5,726
Current Maturities of Bank Loans	5.37%	64,077	3,180
Current Maturity of Corporate Bond	6.40%	15,977	16,193
Current Maturities of Loans from Others	7.19%	361	357
Total		<u>86,193</u>	<u>25,456</u>

B. Long-term loans

	Weighted interest rate- 3/31/2018	As of March 31, 2018	As of December, 31 2017
	%	In \$	000
Non-current loans			
HUD Guaranteed Loans	3.61%	262,383	263,847
Bank Loans	5.37%	29,189	90,542
Corporate Bond	6.40%	72,799	73,684
Loans from Others	7.19%	1,916	2,008
Total		<u>366,287</u>	<u>430,081</u>

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. NOTES PAYABLE AND OTHER DEBT (Cont.)

Repayment dates:

First year - 2018	86,193
Second year - 2019	14,845
Third year - 2020	47,452
Fourth year - 2021	17,229
Fifth year - 2022	17,465
Sixth year (2023) and thereafter	269,296
	<u>452,480</u>

Debt Covenant Compliance

As of March 31, 2018, the Company has approximately fifty credit related instruments (credit facilities, mortgage notes, bonds and other credit obligations) outstanding. Some of the instruments include various financial and administrative covenant provisions in the total amount of \$93.2 million. Covenant provisions include, but are not limited to, fixed charge coverage ratios, debt service coverage ratios, and minimum EBITDA or EBITDAR. Certain financial covenant provisions are based on consolidated financial measurements whereas others are based on subsidiary level (i.e. facility, multiple facilities or a combination of subsidiaries comprising less than the Company's consolidated financial measurements). Some covenants are based on annual financial metric measurements whereas others are based on quarterly financial metric measurements. The Company routinely tracks and monitors its compliance with its covenant provisions. As of March 31, 2018, the Company has been in compliance with all financial and administrative covenants. Please note, as of May 3, 2018, \$45.6 million of bank debt was paid off

Senior Debt—Guaranteed by HUD

As of March 31, 2018, the Company had non-recourse loans from financial entities of \$260.79 million, secured by guarantees from HUD. In the context of these loans, the Company pledges its rights in the nursing home 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 borrower, to the payment of the rental fees owing to the landlord directly to the lender. For receipt of the guarantee, the Company pays an annual fee of 0.5% of the loan balance 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 March 31, 2018 was 4.26% (including the Mortgage Insurance Payment).

Senior Debt—Bonds, net of Discount

In November 2015, after SF REIT Ltd. published a final prospectus in Israel for the issuance of debentures (Series A) in the amount of up to NIS 265.3 million par value (\$68.2 million), SF REIT Ltd. raised a net amount, after issuance costs of NIS 14.1 million, of NIS 251.2 million, or \$64.3 million. During September 2016, SF REIT Ltd. completed an additional offering of the Series A debentures, with a par value of 70,030,000 and raised a gross amount of \$19.3 million (NIS 72.5 million). The debentures were issued at a price of 103.6% and the net proceeds of the offering amounted to \$18.8 million (NIS 70.8 million). 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. As a result, the average duration of the debentures is 3.94 years.

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 additional offering, is 7.4%. The first interest payment was made on July 1, 2016.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. NOTES PAYABLE AND OTHER DEBT (Cont.)

All covenants of SF REIT Ltd. are measured based on its financial statements prepared in accordance with IFRS accounting principles. To the extent that the shareholders' equity of SF REIT Ltd. (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 increase 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 March 31, 2018 was \$ 412.37 million; the adjusted EBITDA for the 12 months ended on that date was \$ 55.057 million i.e. a ratio of 7.49.

Additionally, if a decline in the rating of the debentures should take place, then for each single decline, the interest rate of the debentures will be increased by 0.25% per year, up to a maximum increment of 1.25% per year. In any case, the total change to the interest rate, with respect to any of the above covenants on an accumulated basis, will not exceed 1.5% per year. If the rating of the debentures rises after a decline, 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, SF REIT Ltd. 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 March 31, 2018, SF REIT Ltd. was in compliance 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 reserve, 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. In addition, SF REIT Ltd. committed not to pledge its assets in a general lien without obtaining the consent in advance of the debenture holders. Nevertheless, SF REIT Ltd. 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.

Other Debt

On March 31, 2018, the Company had \$2.4 million in outstanding seller notes. During 2018, the Company is planning to pay \$0.3 million against the notes.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Commitments

The Parent Company guarantees from time to time obligations created by itself or its wholly owned subsidiaries.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. SHAREHOLDER'S EQUITY AND DIVIDENDS

A. The issued and paid up share capital of the Company is comprised of 20,000,000 shares with a par value of \$0.0001. Each share of the Company provides its holder with the following rights: (a) one vote at any meeting of 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.

In February 2016, the Board of Directors of SF REIT Ltd. adopted dividend distribution policies, the principals of which are as follows:

- Commencing from 2016, subject to law and external limitations, SF REIT Ltd. will distribute dividends to the Parent Company 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 SF REIT Ltd. Board of Directors and according to the its needs and its financial obligations as of the date of distribution of the dividends;
- Prior to approval of the dividends to be actually distributed, SF REIT Ltd. Board of Directors will examine, among other things, the compliance of SF REIT Ltd. with the financial covenants and various limitations which have been imposed upon it.
- SF REIT Ltd. Board of Directors is permitted to decide that it will not distribute any dividends.

Nevertheless, according to part of the financing agreements of the Company, 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, SF REIT Ltd. commits that it will not execute any distribution (as it is defined in the Israeli Companies' Law), including not declaring, paying or distributing any dividends, except if all of the following conditions will be met:

- (1) The accumulated balance of the earnings and the reserves through June 30, 2015 of SF REIT Ltd. 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 SF REIT Ltd. net income as presented on SF REIT Ltd. financial statements prepared based on IFRS accounting principles, after taxes, which was recognized in the latest consolidated financial statements of SF REIT Ltd. (the quarterly or annual, as the case may be), after adjustment of gains/losses derived from a change in the accounting method according to which the financial statements were prepared, and after adjusting net revaluation gains/losses (not yet realized) resulting from a change in the fair value of SF REIT Ltd. 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 SF REIT Ltd. (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 SF REIT Ltd. (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) SF REIT Ltd. complies with the financial covenants described in Note 7

As of March 31, 2018, SF REIT Ltd. was in compliance in all said financial covenants

During 2018, SF REIT Ltd. distributed to the Parent Company total dividend in the amount of \$1,400,000. As of March 31, 2018, 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 \$5,584,000.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. SHAREHOLDER'S EQUITY AND DIVIDENDS (Cont.)

B. Dividend distribution policy of SF REIT Ltd (cont.).

During 2017, SF REIT Ltd. distributed to the Parent Company total dividends in the amount of \$6,750,000. As of December 31, 2017, 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 \$3,937,000.

NOTE 10. RELATED PARTY TRANSACTIONS

The following entities are considered to be Related Parties

Moishe Gubin	Chairman of the board and a controlling shareholder of the Parent Company
Michael Blisko	Director and a controlling shareholder of the Parent Company
Ted Lerman	Director and a shareholder of the Parent Company
Nahman Eingal	Director, Co-CEO of SF REIT Ltd., and a shareholder of the Parent Company
Operating entities	See list below
Strawberry Fields Management Services	Affiliate that provides management services. See below

Lease Agreements

As of March 31, 2018, The Company's facilities were leased and operated by different tenants, which are special purpose entities that lease the assets (directly and indirectly) from the Company's subsidiaries and operate and manage the facilities and all of the accompanying needs and services required. As of March 31, 2018, 34 of the 59 tenants were affiliates of the Company's controlling shareholders. Most of the lease agreements are Triple Net Leases.

The following are details of the lease agreements in force between the Company and its subsidiaries and the lessees that are related parties to the Company's controlling shareholders:

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. RELATED PARTY TRANSACTIONS (Cont.)

Lease Agreements (Cont.)

State	Owner of Deed/lease	Operating entity	Board members ownership in Operator			Average annual rent over life of lease	Annual Escalation	% of total rent	Lease maturity	Extension options
			Moishe Gubin	Michael Blisko	Ted Lerman / A&F Realty					
	Master Lease IN									
IN	1020 West Vine St, LLC	The Waters of Princeton II, LLC	31.13%	31.13%	20.00%	1,045,506	3.00%	1.78%	7/1/2025	2 five year
IN	12803 Lenover Street Realty, LLC	The Waters of Dilsboro - Ross II, LLC	31.13%	31.13%	20.00%	1,353,655	3.00%	2.31%	7/1/2025	2 five year
IN	1350 North Todd St, LLC	The Waters of Scottsburg II, LLC	31.13%	31.13%	20.00%	1,089,527	3.00%	1.86%	7/1/2025	2 five year
IN	1600 East Liberty Street Realty, LLC	The Waters of Covington II, LLC	31.13%	31.13%	20.00%	1,309,634	3.00%	2.23%	7/1/2025	2 five year
IN	1601 Hospital Dr Realty, LLC	The Waters of Greencastle II, LLC	31.13%	31.13%	20.00%	1,100,532	3.00%	1.88%	7/1/2025	2 five year
IN	1712 Leland Drive Realty, LLC	The Waters of Huntingburg II, LLC	31.13%	31.13%	20.00%	1,045,506	3.00%	1.78%	7/1/2025	2 five year
IN	2055 Heritage Dr Realty, LLC	The Waters of Martinsville II, LLC	31.13%	31.13%	20.00%	1,133,548	3.00%	1.93%	7/1/2025	2 five year
IN	3895 Keystone Ave Realty, LLC	The Waters of Indianapolis II, LLC	31.13%	31.13%	20.00%	891,431	3.00%	1.52%	7/1/2025	2 five year
IN	405 Rio Vista Lane Realty, LLC	The Waters of Rising Sun II, LLC	31.13%	31.13%	20.00%	638,309	3.00%	1.09%	7/1/2025	2 five year
IN	950 Cross Ave Realty, LLC	The Waters of Clifty Falls II, LLC	31.13%	31.13%	20.00%	1,518,735	3.00%	2.59%	7/1/2025	2 five year
IN	958 East Highway 46 Realty, LLC	The Water of Batesville II, LLC	31.13%	31.13%	20.00%	946,458	3.00%	1.61%	7/1/2025	2 five year
IN	Big H2O	The Waters of Muncie II, LLC	31.13%	31.13%	20.00%	792,383	3.00%	1.35%	7/1/2025	2 five year
IN	Big H2O	The Waters of Newcastle II, LLC (2)	31.13%	31.13%	20.00%	726,351	3.00%	1.24%	7/1/2025	2 five year
	Master Lease TN									
TN	115 Woodlawn Drive, LLC	Lakebridge a Waters Community, LLC	40.00%	40.00%	20.00%	1,306,974	3.00%	2.23%	7/31/2026	2 five years
TN	146 Buck Creek Road, LLC	Waters of Roan Highlands, LLC	40.00%	40.00%	20.00%	959,247	3.00%	1.63%	7/31/2026	2 five years
TN	704 5th Avenue East, LLC	Waters of Springfield, LLC	40.00%	40.00%	20.00%	791,378	3.00%	1.35%	7/31/2026	2 five years
TN	2501 River Road, LLC	Waters of Cheatham, LLC	40.00%	40.00%	20.00%	959,247	3.00%	1.63%	7/31/2026	2 five years
TN	202 Enon Springs East, LLC	Waters of Smyrna, LLC	40.00%	40.00%	20.00%	1,091,143	3.00%	1.86%	7/31/2026	2 five years
TN	140 Technology Lane, LLC	Waters of Johnson City, LLC	40.00%	40.00%	20.00%	1,007,209	3.00%	1.72%	7/31/2026	2 five years
TN	835 Union Street, LLC	Waters of Shelbyville, LLC	40.00%	40.00%	20.00%	1,151,096	3.00%	1.96%	7/31/2026	2 five years

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. RELATED PARTY TRANSACTIONS (Cont.)

Lease Agreements (Cont.)

State	Owner of Deed/Lease	Tenant	Affiliate Ownership in Operator (See Notes (1) and (2))				Average Annual rent over life of lease	Annual Escalation	% of total rent	Lease maturity	Extension options
			Moishe Gubin	Michael Blisko	Ted Lerman / A&F Realty	Steven Blisko					
	Master Lease 253, Alton, Midwest										
IL	253 Bradington Drive, LLC	Columbia Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	399,076	3.0%	0.68%	3/31/2026	4 five year
IL	3523 Wickenhauser, LLC	Alton Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	606,998	3.0%	1.04%	3/31/2026	4 five year
IL	727 North 17th St, LLC	Midwest Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	603,644	3.0%	1.03%	3/31/2026	4 five year
	Master Lease Southern IL										
IL	120 N Tower Rd, LLC	Carbondale Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	1,054,220	3.00%	1.8%	9/30/2025	4 five year
IL	1900 North Park Ave, LLC	Herrin Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	394,326	3.00%	0.67%	9/30/2025	4 five year
IL	315 S Brady Mill Rd, LLC	Anna Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	563,323	3.00%	0.96%	9/30/2025	4 five year
IL	430 South Front St, LLC	Cobden Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	595,513	3.00%	1.02%	9/30/2025	4 five year
	Master Lease Central IL										
IL	107 South Lincoln Street LLC	Park Haven Rehabilitation and Nursing Center, LLC	0.00%	0.00%	40.00%	60.00%	390,846	1.00%	0.67%	6/1/2034	1 ten year
IL	1623 West Delmar Ave, LLC	Godfrey Healthcare & Rehab Center, LLC	0.00%	0.00%	40.00%	60.00%	263,144	1.00%	0.45%	6/1/2034	1 ten year
IL	393 Edwardsville Road LLC	Wood River Healthcare & Rehab Center, LLC	0.00%	0.00%	40.00%	60.00%	410,194	1.00%	0.70%	6/1/2034	1 ten year

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. RELATED PARTY TRANSACTIONS (Cont.)

Individual Lease Agreements (Cont.)

State	Owner of Deed/lease	Operating entity	Board members ownership in Operator			Average Annual rent over life of lease	Annual Escalation	% of total rent	Lease maturity	Extension options
			Moishe Gubin	Michael Blisko	Ted Lerman / A&F Realty					
IL	516 West Frech St, LLC	Parker Nursing and Rehab, LLC	40.00%	40.00%	0.00%	498,224	12,000 annually	0.85%	4/1/2030	None
IN	1316 North Tibbs Avenue Realty LLC	West Park a water community	40.00%	40.00%	20.00%	549,884	3.00%	0.94%	6/1/2024	2 five year
IL	Ambassador Nursing Realty, LLC	Ambassador Nursing and Rehab, LLC	37.50%	37.50%	5.00%	1,005,313	3.00%	1.71%	2/28/2026	2 five year
IL	Momence Meadows Realty, LLC (1)	Momence Meadows Nursing & Rehab Center, LLC	33.60%	31.50%	31.50%	1,038,000	None	1.77%	12/1/2025	None
IL	Oak Lawn Nursing Realty, LLC (1)	Oak Lawn Respiratory and Rehab center, LLC	20.00%	20.00%	20.00%	1,083,048	None	1.85%	6/1/2031	None
IL	Forest View Nursing Realty, LLC	Forest View Rehab and Nursing center, LLC	20.00%	20.00%	20.00%	1,215,483	3.00%	2.07%	11/30/2024	2 five year
IL	Lincoln Park Holdings, LLC (1)	Lakeview Rehab and Nursing center, LLC	40.00%	40.00%	0.00%	1,260,000	None	2.15%	6/1/2031	None
IL	Continental Realty, LLC (1)	Continental Nursing and Rehab, LLC	37.50%	37.50%	5.00%	1,575,348	None	2.68%	1/1/2028	None
IL	Westshire Realty, LLC	City View Multi care Center LLC	50.00%	50.00%	0.00%	1,788,365	3.00%	3.05%	9/1/2025	2 five year
IL	Belhaven Realty, LLC	Belhaven Nursing and Rehab, LLC	35.00%	35.00%	30.00%	2,134,570	3.00%	3.64%	2/28/2026	4 five year
IL	West Suburban Nursing Realty, LLC (1)	West Suburban Nursing & Rehab Center, LLC	37.50%	37.50%	5.00%	1,961,604	None	3.34%	11/1/2027	None
IL	Niles Nursing Realty, LLC	Niles Nursing & Rehab, LLC	40.00%	40.00%	20.00%	2,409,998	3.00%	4.11%	2/28/2026	2 five year
IL	Parkshore Estates Nursing Realty, LLC	Parkshore Estates Nursing & Rehab Center, LLC	30.00%	30.00%	20.00%	2,454,187	3.00%	4.18%	12/1/2024	2 five year
IL	Midway Neurological and Rehab Realty, LLC	Midway Neurological and Rehab Center, LLC	33.39%	33.39%	23.97%	2,547,712	3.00%	4.34%	2/28/2026	4 five year

- (1) The interests of the three listed owners are not held through any commonly owned holding companies. Mr. Gubin's interests are held through Gubin Enterprises LP. Mr. Blisko's interests are held directly by him. The interests held by Ted Lerman/A&F Realty are held directly by them.
- (2) Each of the tenants is an LLC. The percentages listed in Exhibit B reflect the owners' percentage ownership of the outstanding membership interests in each LLC. Each LLC is managed by two or three managers, which currently consist of Gubin, Blisko and sometimes Lerman/A&F. Decisions are made by majority vote of the managers, except (in some cases) for certain major items that require the vote of a majority or greater percentage of the members
- (3) These are Gross Leases

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. RELATED PARTY TRANSACTIONS (Cont.)

Loans and Due from related parties

See note 7 for details

Guarantees from shareholders

As of March 31, 2018, controlling shareholders guaranteed \$93.3 million in loans from commercial banks.

Management services agreement

SF REIT Ltd. has entered into a management services agreement with Strawberry Fields Management Services, LLC (“SFMS”), a company owned by the controlling shareholders of the Parent Company. Under the management agreement, SFMS provides management services to the Company, including the following services: accounting reporting, current legal consultation, secretary services, office services, communications and computers, senior management services, collection of rental fees paid by the lessees with respect to the Company’s properties, bookkeeping services, operating the Company’s properties and consulting and management services in connection with the purchase, sale and financing of properties.

In addition, the Company, subject to the completion of its planned initial public offering, will enter into a second management agreement with SFMS that will provide the same services as the first agreement, but to the Company itself.

In consideration for the above management services, SF REIT Ltd. pays monthly management fees to SFMS in an amount equal to 2.0% of the rental income received by the Company, as well as a reimbursement of direct expenses expended by SFMS in the context of providing management services to the Company. In the event the Company completes its planned initial public offering, the second management agreement will require the Company to pay total management fees equal to 0.3% annually of the total assets under management. Therefore, the Company will have to pay SFMS the difference between 2% of rental income and 0.3% of assets on an annual basis. The Company will be permitted to terminate the management agreement by notification to be submitted to SFMS 60 days in advance. SFMS will be permitted to terminate the management agreement by notification to be submitted to the Company 180 days in advance.

Balances with interested parties and related parties

	<u>As of March 31, 2018</u>	<u>As of December 31, 2017</u>
	<u>In \$000s</u>	
Income receivable- averaging of rent due to fixed accelerated lease terms	<u>11,826</u>	<u>10,999</u>
Tenant portion of reserve	<u>3,652</u>	<u>4,737</u>
Due from related parties	<u>-</u>	<u>-</u>

Transactions with interested and related parties

	<u>For period ended December (000's) March 31, 2018</u>	<u>December 31, 2017</u>
Rental income	<u>10,047</u>	<u>48,686</u>
Net Interest expense	<u>-</u>	<u>-</u>
Management services expenses	<u>273</u>	<u>1,038</u>
General & Administrative Expenses	<u>-</u>	<u>-</u>

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. INCOME TAXES

The Company is a C corporation, under United States federal income tax law. It is governed by subchapter C of the Internal Revenue Code. This type of corporation is a taxpayer in its own right. It must file its own tax return and pay corporate-level taxes on its income separately from its owners. As a result, the additional pro forma information below presents the cost or benefits the Company would have had if it would be created on January 1, 2015. However, since the new C corporation will not benefit from previous years accumulated deficits, the accumulated deficit does not affect the deferred tax.

The provision (benefit) for income taxes for the periods ended June 30 2017, June 30, 2018 and year ended December 31, 2017 was as follows:

	March 31,	
	2018	2017
	In \$ 000	
Current tax provision:		
Taxable income	-	-
Total current tax provision	-	-
Deferred Tax Provision:		
Provision (benefit) from depreciation recognition	(368)	(313)
Total deferred tax provision	(368)	(313)

The Company had deferred income tax liabilities (assets) as of March 31 2018 and December 31, 2017 as follows:

	March 31,	December 31,
	2018	2017
	In \$ 000	
Deferred Tax Liabilities (assets):		
Liabilities (assets) from depreciation recognition	(32,522)	(32,890)
Total Deferred Tax Liabilities (assets):	(32,522)	(32,890)

As of March 31, 2018, the Company had approximately \$120 million difference between the value of the properties presented in its books and the value of the properties for tax purposes. The Company did not identify any material uncertain tax positions. The Company did not recognize any interest or penalties for unrecognized tax benefits. The federal income tax returns of the Company are subject to examination by the IRS, generally for three years after they are filed.

NOTE 12. SUBSEQUENT EVENTS

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

During 2016, the operator which rented the four properties with eight licenses of the Company in Texas and Oklahoma encountered cash flows problems, and as a result, did not pay the rental fees due for the months of November 2016 through December 2017 (total of \$4,909,000). The eight licenses include 4 nursing homes and four LTACHs

During December 2016, the court approved the appointment of a manager for the lessee on behalf of the Company. In addition, since the operator breached the loan agreements for working capital and the bank halted the financing of the operating companies, the Company has provided the working capital needed for the operation of the nursing homes. As of August 2017, the Company provided the operator with approximately \$5.5 million for working capital purposes (which increased to a total of \$6 million as of June 30, 2017). As a result of the operator's cash flow issues and since rent was not paid, during 2017 the Company did not record rental income from these properties (\$2,997,000 of which \$2,454,000 was attributed to 2017 and the balance attributed to 2016). Per the lease agreement, the owners of the operators personally guaranteed the rent payments. The Company is currently evaluating its options to recover the rent from the guarantors.

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. SUBSEQUENT EVENTS) Cont.)

Based on an understanding between the Company, the mortgagee, and the bank which provided the working capital to the operator, the Company has priority in proceeds collected from the operator's account receivables which are generated after December 13, 2016. Therefore, the Company believes that based on the amount owed to the operator, mainly from government related entities, it will be able to collect the entire amount provided as working capital to the operator.

Settlement agreement with prior tenant

Based on the lease agreement with prior tenant, the owners of the tenant signed personal guarantees to guarantee the lease payments. In April 2018 the Company signed a settlement agreement with the guarantors. Based on the agreement, the guarantors signed on two notes for the total amount of \$7.244 million Dollars which will be paid over a period of 14 years as follow:

\$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. 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 of 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.

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 a confession of judgment in the amount of \$13.25 million Dollars that will be file 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.

In accordance with foot note 12A to the Company's December 31, 2017 financials, as of May 10, 2018, the Company had provided the operator with approximately \$4.6 million for working capital purposes after a \$981 thousand dollar pay down that was done on April 2nd. Based on understanding between the Company, the mortgagee, and the bank which provided the working capital to the operator, the Company has priority in proceeds collected from operators account receivables which was generated after December 13, 2016. Therefore, the company believes that based on the amount owed to the operators, mainly from government related entities, it will be able to collect \$3.3 million of the entire amount provided as working capital to the operators. As a result, the company created a reserve for bad debt in the amount of \$1.3 million dollars. This amount is being presented on the Profit and Loss as other expense

B. Michigan transaction

In February 2017, SF REIT Ltd. entered into an agreement with a third party for acquisition of ownership rights of a nursing home in the State of Michigan, for total consideration of \$4.2 million. This transaction is no longer valid and the company is acting to receive the \$250,000 security deposit. It made as part of the transaction.

C. Kentucky transaction

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 that will be applied to the purchase price. On May 1, 2018 the company completed the acquisition of the asset by paying cash and signed on a lease agreement. Rent payment during the first year will be \$650,000. The lease is a ten years lease with two 5 years extensions and an annual rent escalation of 3%.

D. Indiana Transaction

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. 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. 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 233.9 million Shekel, after raising costs of NIS 5.4 million. The debentures are repayable in three annual

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. SUBSEQUENT EVENTS) Cont.)

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

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%).

Collateral- the debentures are secured by first lien on 16 of the Company's buildings in the total amount of \$104 million. In addition, the debenture by 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. 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 will use \$45.6 million to pay off bank debt (Closed 5/3/2018), \$3.1 million will be used to cover issuance cost and interest cushion with the trustee, and \$18.6 million will not be converted from shekel to dollar, and will be transferred to the trustee to be used for the coming payment on Bond Series A

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:

- (1) The shareholders' equity of the Company (not including owners of rights not providing control) will not be lower than \$ 150 million;
- (2) The ratio of the consolidated shareholders' equity of the Company (including owners of rights not providing control) to the amount of the consolidated balance sheet will not be less than 27%;
- (3) The ratio of the adjusted net financial equity to adjusted EBITDA (for the past four quarters) may not exceed 13.
- (4) Loan to collateral ratio not more than 75%

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. SUBSEQUENT EVENTS) Cont.)

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

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) for immediate repayment.

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.

NOTE 13. FINANCING INCOME (EXPENSES), NET

	Period ended March 31,	
	2018	2017
Financing expenses		
Interest expenses with respect to debentures	(1,607)	(2,024)
Interest expenses on loans from banks and others	(3,810)	(5,261)
Loss from Derivative	-	3,403
Interest expenses with respect to leases	(108)	(111)
Other financing expenses (including to related parties), net	(154)	(374)
Total financing expenses	(5,679)	(4,367)
Financing income	82	67

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

Name of company	Country of incorporation	Rights of Parent Company in equity and voting rights as of March 31	
		2018	2017
		%	%
Strawberry Fields REIT, LTD	British Virgin Island	100%	100%
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%	100%
Westshire Realty, LLC	United States	100%	100%
1301 De Young St, LLC	United States	100%	100%
253 Bradington Drive, LLC	United States	100%	100%
115 Woodlawn Drive, LLC	United States	100%	100%
146 Buck Creek Road, LLC	United States	100%	100%
727 North 17th St, LLC	United States	100%	100%

STRAWBERRY FIELDS REAL ESTATE HOLDINGS, INC AND SUBSIDIARIES

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

3523 Wickenhauser, LLC	United States	100%	100%
Ambassador Nursing Realty, LLC	United States	100%	100%
Midway Neurological and Rehab Realty, LLC	United States	100%	100%
Parkshore Estates Nursing Realty, LLC	United States	100%	100%
Niles Nursing Realty, LLC	United States	100%	100%
West Suburban Nursing Realty, LLC	United States	100%	100%
Belhaven Realty, LLC	United States	100%	100%
308 West Maple Avenue, LLC	United States	100%	100%
835 Union Street, LLC	United States	100%	100%
140 Technology Lane, LLC	United States	100%	100%
202 Enon Springs East, LLC	United States	100%	100%
2501 River Road, LLC	United States	100%	100%
TX/OK Funding LLC (4)	United States	100%	100%
1585 Perry Worth Road, LLC	United States	100%	(5)
1155 Eastern Parkway, LLC	United States	100%	(5)

- (1) By means of The Big H2O, LLC, held directly by the Company at a 100% rate.
- (2) Medical office buildings.
- (3) By means of Southern Illinois Healthcare Properties II, LLC held directly by the Company at a 100% rate.
- (4) A company established in 12/2016 for financing operations in Texas
- (5) Acquired during 2017