
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: **001-41628**

Strawberry Fields REIT, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

84-2336054
(IRS Employer
Identification No.)

6101 Nimitz Parkway, South Bend, IN, 46628
(Address of principal executive offices)

(574) 807-0800
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12 (b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, par value \$0.0001 per share	STRW	NYSE American LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 7,481,015 shares of common stock, \$0.0001 par value, issued and outstanding as of November 8, 2024.

STRAWBERRY FIELDS REIT, INC.

FORM 10-Q September 30, 2024

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PART I – FINANCIAL INFORMATION

Item 1 - Financial Statements

STRAWBERRY FIELDS REIT, INC. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in \$000's, except share data)

	September 30, 2024	December 31, 2023
	(unaudited)	
Assets		
Real estate investments, net	\$ 528,741	\$ 518,314
Cash and cash equivalents	29,286	12,173
Restricted cash and equivalents	23,963	25,585
Straight-line rent receivable, net	26,335	23,334
Right of use lease asset	1,290	1,542
Goodwill, other intangible assets and lease rights	23,286	8,604
Deferred financing expenses	5,547	6,035
Notes receivable, net	16,819	17,706
Other assets	6,278	3,502
Total Assets	\$ 661,545	\$ 616,795
Liabilities		
Accounts payable and accrued liabilities	\$ 13,004	\$ 16,907
Bonds, net	150,786	100,294
Notes payable and other debt	428,843	436,192
Operating lease liability	1,290	1,542
Other liabilities	12,403	14,587
Total Liabilities	\$ 606,326	\$ 569,522
Commitments and Contingencies (Note 8)		
Equity		
Common stock, \$.0001 par value, 500,000,000 shares authorized, 7,411,828 shares and 6,487,856 issued and outstanding	\$ -	\$ -
Preferred stock, \$.0001 par value, 100,000,000 shares authorized, 0 shares issued and outstanding	-	-
Additional paid in capital	10,350	5,746

Accumulated other comprehensive income	925	529
Retained earnings	1,339	1,232
Total Stockholders' Equity	\$ 12,614	\$ 7,507
Non-controlling interest	\$ 42,605	\$ 39,766
Total Equity	\$ 55,219	\$ 47,273
Total Liabilities and Equity	\$ 661,545	\$ 616,795

See accompanying notes to condensed consolidated financial statements.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

(Amounts in \$000's, except share and per share data)

	Nine Months Ended September		Three Months Ended	
	2024	2023	2024	2023
Revenues				
Rental revenues	\$ 86,570	\$ 74,325	\$ 29,464	\$ 25,771
Expenses:				
Depreciation	\$ 21,348	\$ 18,995	\$ 7,134	\$ 6,534
Amortization	3,318	2,271	1,207	757
Loss on real estate investment impairment	-	2,451	-	-
General and administrative expenses	5,064	3,974	1,428	1,560
Property taxes	10,650	11,152	3,481	3,717
Facility rent expenses	577	419	184	147
Total expenses	\$ 40,957	\$ 39,262	\$ 13,434	\$ 12,715
Income from operations	45,613	35,063	16,030	13,056
Interest expense, net	\$ (24,028)	\$ (17,983)	\$ (8,590)	\$ (7,865)
Amortization of deferred financing costs	(488)	(401)	(165)	(148)
Mortgage insurance premium	(1,164)	(1,253)	(374)	(420)
Total interest expense	\$ (25,680)	\$ (19,637)	\$ (9,129)	\$ (8,433)
Other (loss) Income:				
Other expense	-	(982)	-	-
Foreign currency transaction gain	-	81	-	81
Net income	\$ 19,933	\$ 14,525	\$ 6,901	\$ 4,704
Less -				
Net income attributable to non-controlling interest	(17,305)	(12,743)	(5,957)	(4,115)
Net income attributable to common stockholders	2,628	1,782	944	589
Other comprehensive income:				

Gain (loss) due to foreign currency translation	3,116	7,325	(869)	3,041
Reclassification of foreign currency transaction gain	-	(81)	-	(81)
Comprehensive (income) loss attributable to non-controlling interest	(2,720)	(6,355)	746	(2,590)
Comprehensive income	<u>\$ 3,024</u>	<u>\$ 2,671</u>	<u>\$ 821</u>	<u>\$ 959</u>
Net income attributable to common stockholders	\$ 2,628	\$ 1,782	944	589
Basic and diluted income per common share	\$.40	\$.28	\$.14	\$ 0.09
Weighted average number of common shares outstanding	<u>6,636,699</u>	<u>6,366,090</u>	<u>6,950,305</u>	<u>6,366,548</u>

See accompanying notes to condensed consolidated financial statements

STRAWBERRY FIELDS REIT, INC. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Amounts in \$000's)

	Number of common shares	Additional Paid-in Capital	Accumulated other comprehensive income	Retained Earnings	Non- controlling interest	Total
Balance, December 31, 2022	6,365,856	\$ 5,792	\$ 386	\$ 1,608	\$ 41,598	\$49,384
Dividends (unaudited)	-	-	-	(700)	-	(700)
Non-controlling interest distributions (unaudited)	-	-	-	-	(4,999)	(4,999)
Net change in foreign currency translation (unaudited)	-	-	277	-	2,041	2,318
Net income (unaudited)	-	-	-	495	3,644	4,139
Balance, March 31, 2023 (unaudited)	6,365,856	\$ 5,792	\$ 663	\$ 1,403	\$ 42,284	\$50,142
Dividends (unaudited)	-	-	-	(700)	-	(700)
Non-controlling interest distributions (unaudited)	-	-	-	-	(4,998)	(4,998)
Net change in foreign currency translation (unaudited)	-	-	242	-	1,724	1,966
Net income (unaudited)	-	-	-	698	4,984	5,682
Balance, June 30, 2023 (unaudited)	6,365,856	\$ 5,792	\$ 905	\$ 1,401	\$ 43,994	\$52,092
Issuance of common shares in exchange for OP units (unaudited)	63,658	-	-	-	-	-
Dividends (unaudited)	-	-	-	(700)	-	(700)
Non-controlling interest distributions (unaudited)	-	-	-	-	(5,158)	(5,158)
Net change in foreign currency translation (unaudited)	-	-	370	-	2,590	2,960
Net income (unaudited)	-	-	-	589	4,115	4,704
Balance, September 30, 2023 (unaudited)	<u>6,429,514</u>	<u>\$ 5,792</u>	<u>\$ 1,275</u>	<u>\$ 1,290</u>	<u>\$ 45,541</u>	<u>\$53,898</u>

	Number of common shares	Additional Paid-in Capital	Accumulated other comprehensive income	Retained Earnings	Non- controlling interest	Total
Balance, December 31, 2023	6,487,856	\$ 5,746	\$ 529	\$ 1,232	\$ 39,766	\$47,273
Common Stock Retirement (unaudited)	(19,348)	(153)	-	-	-	(153)
Dividends (unaudited)	-	-	-	(778)	-	(778)
Non-controlling interest distributions (unaudited)	-	-	-	-	(5,460)	(5,460)
Net change in foreign currency translation (unaudited)	-	-	168	-	1,182	1,350
Net income (unaudited)	-	-	-	746	5,246	5,992
Balance, March 31, 2024 (unaudited)	<u>6,468,508</u>	<u>\$ 5,593</u>	<u>\$ 697</u>	<u>\$ 1,200</u>	<u>\$ 40,734</u>	<u>\$48,224</u>
Common Stock Retirement (unaudited)	(53,787)	(507)	-	-	-	(507)
OP Units Converted to Common Stock (unaudited)	484,146	-	-	-	-	-
Dividends (unaudited)	-	-	-	(834)	-	(834)
Non-controlling interest distributions (unaudited)	-	-	-	-	(5,890)	(5,890)
Net change in foreign currency translation (unaudited)	-	-	351	-	2,284	2,635
Net income (unaudited)	-	-	-	938	6,102	7,040
Balance, June 30, 2024 (unaudited)	<u>6,898,867</u>	<u>\$ 5,086</u>	<u>\$ 1,048</u>	<u>\$ 1,304</u>	<u>\$ 43,230</u>	<u>\$50,668</u>
Comon Stock Retirement (unaudited)	(32,568)	(213)	-	-	-	(213)
OP Units Converted to Common Stock (unaudited)	73,384	-	-	-	-	-
Common Stock Issued for Property Acquisition (unaudited)	264,884	3,078	-	-	-	3,078
ATM Stock Sales (unaudited)	207,261	2,399	-	-	-	2,399
Dividends (unaudited)	-	-	-	(909)	-	(909)
Non-controlling interest distributions (unaudited)	-	-	-	-	(5,836)	(5,836)
Net change in foreign currency translation (unaudited)	-	-	(123)	-	(746)	(869)
Net income (unaudited)	-	-	-	944	5,957	6,901
Balance, September 30, 2024 (unaudited)	<u>7,411,828</u>	<u>\$ 10,350</u>	<u>\$ 925</u>	<u>\$ 1,339</u>	<u>\$ 42,605</u>	<u>\$55,219</u>

See accompanying notes to condensed consolidated financial statements

STRAWBERRY FIELDS REIT, INC. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Amounts in \$000's)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 19,933	\$ 14,525

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,666	21,266
Amortization of bond issuance costs	429	428
Loss on real estate investment impairment	-	2,451
Amortization of deferred financing costs	488	401
Increase in other assets	(2,776)	(2,270)
Amortization of right of use asset	419	238
Foreign currency transaction gain	-	(81)
Foreign currency translation adjustment	873	-
Increase in straight-line rent receivables, net	(3,001)	(1,232)
(Decrease) increase in accounts payable and accrued liabilities and other liabilities	(6,087)	6,518
Repayment of operating lease liability	(419)	(238)
Net cash provided by operating activities	<u>\$ 34,525</u>	<u>\$ 42,006</u>
<u>Cash flow from investing activities:</u>		
Purchase of real estate investments	\$ (25,897)	\$ (108,062)
Purchase of lease rights	(18,000)	-
Increase in notes receivable	-	(6,500)
Principal payments of notes receivable	887	1,012
Net cash used in investing activities	<u>\$ (43,010)</u>	<u>\$ (113,550)</u>
<u>Cash flows from financing activities:</u>		
Deferred financing cost	\$ -	\$ (808)
Proceeds from notes payable and other debt, net	-	69,208
Proceeds from issuance of bonds, net	62,765	52,382
Proceeds from ATM Stock Sales, net	2,399	-
Repayment of bonds	(10,459)	(11,187)
Repayment of notes payable and other debt	(10,149)	(15,727)
Repayment of non-controlling interest redemption liability	-	(15,753)
Payment of dividends	(2,521)	(2,100)
Non-controlling interest distributions	(17,186)	(15,155)
Common Stock Retirement	(873)	-
Net cash provided by financing activities	<u>\$ 23,976</u>	<u>\$ 60,860</u>
Increase (decrease) in cash and cash equivalents and restricted cash and equivalents	\$ 15,491	\$ (10,684)
Cash and cash equivalents and restricted cash and equivalents at the beginning of the period	\$ 37,758	\$ 45,704
Cash and cash equivalents and restricted cash and equivalents at the end of the period	\$ 53,249	\$ 35,020

STRAWBERRY FIELDS REIT, INC. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued
(Amounts in \$000's)

	<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid during the period for interest	\$ 26,060	\$ 18,186

Supplemental schedule of noncash activities:			
Accumulated other comprehensive income:			
Foreign currency translation adjustments	\$	3,116	\$ 7,244
Right of use lease asset obtained in exchange for operating lease liabilities	\$	3,017	\$ -
Right of use lease asset and lease liability terminated	\$	2,850	\$ -
Common shares issued for property acquisition	\$	3,078	\$ -
Assumption of notes payable and other debt for property acquisition	\$	2,800	\$ -

See accompanying notes to condensed consolidated financial statements

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Business

Overview

The Company

STRAWBERRY FIELDS REIT, Inc. (the “Company”) is a Maryland corporation formed in July 2019. The Company commenced operations on June 8, 2021. The Company conducts its business through a traditional UPREIT structure in which substantially all of its assets are owned by subsidiaries of Strawberry Fields Realty, LP, a Delaware limited partnership formed in July 2019 (the “Operating Partnership”). The Company is the general partner of the Operating Partnership. The Company owns approximately 14.2% and 12.6% of the outstanding OP units as of September 30, 2024 and December 31, 2023, respectively.

As the sole general partner of the Operating Partnership, the Company has the exclusive power under the partnership agreement to manage and conduct the business affairs of the Operating Partnership, subject to certain limited approval and voting rights of the limited partners. The Company may cause the Operating Partnership to issue additional OP units in connection with property acquisitions, compensation or otherwise. The Company became a publicly traded entity on September 21, 2022.

The Company is engaged in the ownership, acquisition, financing and triple-net leasing of skilled nursing facilities and other post-acute healthcare properties. The Company’s portfolio consists of 104 healthcare properties with an aggregate of 12,889 licensed beds. The Company holds fee title to 103 of these properties and holds 1 property under a long-term lease. These properties are located in Arkansas, Illinois, Indiana, Kentucky, Michigan, Ohio, Oklahoma, Tennessee and Texas. The Company generates substantially all of its revenues by leasing its properties to tenants under long-term leases primarily on a triple-net basis, under which the tenant pays the cost of real estate taxes, insurance and other operating costs of the facility and capital expenditures. Each healthcare facility located at its properties is managed by a qualified operator with an experienced management team.

Interim Condensed Consolidated Financial Statements

The accompanying unaudited, condensed consolidated financial statements of the Company have been prepared in accordance with GAAP for interim financial information, and the Securities and Exchange Commission (“SEC”) rules for interim financial reporting. Certain information and footnote disclosures normally included in the condensed consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying interim condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the Company’s condensed consolidated financial position as of September 30, 2024, and the condensed consolidated results of operations and cash flows for the periods presented. The condensed

consolidated results of operations for interim periods are not necessarily indicative of the results of operations to be expected for any subsequent interim period or for the fiscal year ending December 31, 2024.

Variable Interest Entity

The Company consolidates the Operating Partnership, a variable interest entity (“VIE”) in which the Company is considered the primary beneficiary. The primary beneficiary is the entity that has (i) the power to direct the activities that most significantly impact the entity’s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

Non-Controlling Interest

A non-controlling interest is defined as the portion of the equity in an entity not attributable, directly or indirectly, to the primary beneficiary. Non-controlling interests are required to be presented as a separate component of equity on a condensed consolidated balance sheets. Accordingly, the presentation of net income is modified to present the income attributed to controlling and non-controlling interests. The non-controlling interest on the Company’s condensed consolidated balance sheets represents OP units not held by the Company and represents approximately 85.8% and 87.4% of the outstanding OP Units issued by the Operating Partnership as of September 30, 2024 and December 31, 2023, respectively. The holders of these OP units are entitled to share in cash distributions from the Operating Partnership in proportion to their percentage ownership of OP units. Net income is allocated to the non-controlling interest based on the weighted average of OP units outstanding during the period.

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 (“GAAP”).

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of Significant Accounting Policies

Use of Estimates

Management is required to make estimates and assumptions in the preparation of the condensed consolidated financial statements in conformity with 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management’s estimates.

Principles of Consolidation

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

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.

The Company's cash, cash equivalents and restricted cash and cash equivalents periodically exceed federally insurable limits. The Company monitors the cash balances in its operating accounts and adjusts the cash balances as appropriate; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to the cash in its operating accounts. On September 30, 2024 and December 31, 2023, the Company had \$38.3 million and \$22.7 million, respectively, on deposit in excess of federally insured limits. On June 30, 2023, the Company entered into Interbank Cash Sweep accounts to minimize exposure to loss of funds not federally insured. These sweep accounts held approximately \$9.3 million and \$0.9 million as of September 30, 2024 and December 31, 2023, respectively.

Restricted Cash and Cash Equivalents

Restricted cash primarily consists of amounts held by mortgage lenders to provide for real estate tax expenditures, tenant improvements, capital expenditures and security deposits, as well as escrow accounts related to principal and interest payments on Bonds.

Real Estate Depreciation

Real estate costs related to the acquisition and improvement of properties are capitalized and depreciated over the expected life of the asset on a straight-line basis. The Company considers the period of future benefit of an asset to determine its appropriate useful life. The Company does not incur expenditures for tenant improvements as they are the responsibility of the tenant per their respective leases. The Company anticipates the estimated useful lives of its assets by class to be generally as follows:

Building and improvements	7-54 years
Equipment and personal property	2-18 years

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Real Estate Valuation

In determining fair value and the allocation of the purchase price of acquisitions, the Company uses current appraisals or third-party valuations services. The most significant components of these allocations are typically the allocation of fair value to land and buildings and, for certain of its 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 the Company records over the estimated useful life of the property acquired or the remaining lease term. In the case of the value of in place leases, the Company makes 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 the Company will recognize over the remaining lease term for the acquired in place leases.

The Company evaluates 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. All of the Company's acquisitions of investment properties qualified as asset acquisitions during the periods ended September 30, 2024 and 2023.

Revenue Recognition

Rental income from operating leases is generally recognized on a straight-line basis over the terms of the leases. Substantially all of the Company's leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three 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.

Contingent revenue is not recognized until all possible contingencies have been eliminated. The Company considers 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. The Company follows a policy related to rental income whereby the Company considers a lease to be non-performing after 60 days of non-payment of past due amounts and does 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 accompanying condensed consolidated balance sheets. 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. The Company assesses the collectability of straight-line rent in accordance with the applicable accounting standards and reserve policy. If the lessee becomes delinquent in rent owed under the terms of the lease, the Company may provide a reserve against the recognized straight-line rent receivable asset for a portion, up to its full value, that the Company estimates may not be recoverable.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition (Cont.)

Capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. Capitalized below-market leases are accreted to rental income over the remaining terms of the respective leases and expected below-market renewal option periods.

The Company reports revenues and expenses within our triple-net leased properties for real estate taxes that are escrowed and obligations of the tenants in accordance with their respective lease with us.

Gain from sale of real estate investments is recognized when control of the property is transferred and it is probable that substantially all consideration will be collected.

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, 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 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.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash and cash equivalents, notes receivable and operating leases on owned properties. These financial instruments 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 equivalents 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.

With respect to notes receivable, the Company obtains various collateral and other protective rights, and continually monitors these rights, in order to reduce such possibilities of loss. In addition, the Company provides reserves for potential losses based upon management's periodic review of our portfolio.

On September 30, 2024, the Company held four notes receivable with an outstanding balance of \$16.8 million. The notes have maturities ranging from 2024 through 2046, and interest rates ranging from 2% to 11.25%. One of the notes is collateralized by tenants' accounts receivable. All other notes receivable are uncollateralized as of September 30, 2024. As of December 31, 2023, the Company held four notes receivable for a total amount of \$17.7 million. As of September 30, 2024 all of these notes are paid monthly and are current.

Market Concentration Risk

As of September 30, 2024 and December 31, 2023, the Company owned 103 and 97 properties and leased 1 property, respectively. The facilities are located in 9 states, with 40 of its total facilities in Indiana (which include 3,318 skilled nursing beds or 25.7% of the Company's total beds) and 20 of its total facilities are located in Illinois (which include 4,226 skilled nursing beds or 32.8% of the Company's 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 the Centers for Medicare & 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 state regulators 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.

Debt and Capital Raising Issuance Costs

Costs incurred in connection with the issuance of equity interests 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. Deferred financing costs related to line of credit arrangements are deferred, recorded as an asset 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 condensed consolidated statements of income at the time of extinguishment.

Segment Reporting

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. The Company's investment decisions in health care properties, and resulting investments are managed as a single operating segment for internal reporting and for internal decision-making purposes. Therefore, the Company has concluded that it operates as a single segment.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Basic and Diluted Income Per Common Share

The Company calculates basic income per common share by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. At September 30, 2024 and 2023, there were 44,816,085 and 45,436,232 OP units outstanding which were potentially dilutive securities. During the

nine month periods ended September 30, 2024 and 2023, the assumed conversion of the OP units had no impact on basic income per share.

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, a component of equity on the condensed 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, if any, are included in other income (loss), in the condensed consolidated statements of income.

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.

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. 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 valuation models.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Real Estate Investments – Held for Sale

On September 30, 2024 and December 31, 2023, the Company had one property included in real estate investments which was held for sale and carried at the lower of its net book value or fair value on a non-recurring basis on the condensed consolidated balance sheets. The Company's real estate investments held for sale were classified as Level 3 of the fair value hierarchy.

Stock-Based Compensation

The Company accounts for share-based payment awards in accordance with ASC Topic 718, Compensation – Stock Compensation (“ASC 718”). ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in the condensed consolidated financial statements. ASC 718 requires all entities to apply a fair value-based measurement method in accounting for share-based payment transactions. The Company recognizes share-based payments over the vesting period.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures. The main provisions are:

1. Require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss (collectively referred to as the “significant expense principle”).
2. Require that a public entity disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less the segment expenses disclosed under the significant expense principle and each reported measure of segment profit or loss.
3. Require that a public entity provide all annual disclosures about a reportable segment's profit or loss and assets currently required by Topic 280 in interim periods.
4. Clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit
5. Require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.
6. Require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this Update and all existing segment disclosures in Topic 280.

This update is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.

This adoption is not expected to have a significant impact on our condensed consolidated financial statements.

In 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The objective of the guidance in Topic 848 is to provide temporary relief during the transition period. The Board included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. At the time that Update 2020-04 was issued, the UK Financial Conduct Authority (FCA) had established its intent that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR after December 31, 2021. As a result, the sunset provision was set for December 31, 2022- 12 months after the expected cessation date of all currencies and tenors of LIBOR. In March 2021, the FCA announced that the intended cessation

date of the overnight 1-, 3-, 6-, and 12- month tenors of USD LIBOR would be June 30, 2023, which is beyond the current sunset date of Topic 848. Because the current relief in Topic 848 may not cover a period of time during which a significant number of modifications may take place, the amendments in ASU 2022-06 issued in December 2022, defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Company does not expect this standard to have a material impact on its condensed consolidated financial statements.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. Restricted Cash and Equivalents

The following table presents the Company's restricted cash and equivalents and escrow deposits:

	September 30, 2024	December 31, 2023
	(amounts in \$000's)	
MIP escrow accounts	\$ 787	\$ 794
Other escrow and debt deposits	274	737
Property tax and insurance escrow	4,935	6,842
Interest and expense reserve bonds escrow	6,305	3,924
HUD replacement reserves	11,662	13,288
Total restricted cash and equivalents	<u>\$ 23,963</u>	<u>\$ 25,585</u>

MIP escrow accounts - The Company is required to make monthly escrow deposits for mortgage insurance premiums on the HUD guaranteed mortgage loans.

Other escrow and debt deposits - The Company funds various escrow accounts under certain of its loan agreements, primarily to cover debt service on underlying loans.

Property tax and insurance escrow - The Company funds escrows for real estate taxes and insurance under certain of its loan agreements.

Interest and expense reserve bonds escrow - The indentures for the Series A, C and D Bonds require the funding of a six-month interest reserve as well as an expense reserve. See Note 7 - Notes Payable and Other Debt.

HUD replacement reserves - The Company is required to make monthly payments into an escrow for replacement and improvement of the project assets covered by HUD guaranteed mortgage loans. A portion of the replacement reserves are required to be maintained until the applicable loan is fully paid.

NOTE 4. Real Estate Investments, net

Real estate investments consist of the following:

	Estimated Useful Lives (Years)	September 30, 2024	December 31, 2023
		(Amounts in \$000's)	
Buildings and improvements	7-54	\$ 598,732	\$ 576,044
Equipment and personal property	2-18	104,069	97,359
Land	-	<u>66,685</u>	<u>64,309</u>

	769,486	737,712
Less: accumulated depreciation	<u>(240,745)</u>	<u>(219,398)</u>
Real estate investments, net	<u>\$ 528,741</u>	<u>\$ 518,314</u>

For the three-month periods ended September 30, 2024 and 2023, total depreciation expense was \$7.1 million and \$6.5 million, respectively. For the nine-month periods ended September 30, 2024 and 2023, total depreciation expense was \$21.3 million and \$19.0 million, respectively.

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STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. Real Estate Investments, net (Cont.)

Acquisition of Properties

On August 30, 2024 the Company completed the acquisition of two skilled nursing facilities with 254 licensed beds near San Antonio, TX. The acquisition was for \$15.25 million. The Company funded the acquisition utilizing cash from the balance sheet.

On August 30, 2024 the Company exercised its purchase option for two skilled nursing facilities with 248 licensed beds near Johnson City, TN. The acquisition was for \$4.0 million and the Company funded the acquisition utilizing cash from the balance sheet.

On September 25, 2024 the Company completed the acquisition for a property comprised of an 83-bed skilled nursing facility and 25 bed assisted living facility near Nashville, Tennessee. The acquisition was for \$6.7 million and the Company funded the acquisition by assuming \$2.8 million of existing debt on the facilities, \$3.1 million was paid by the Company issuing common stock to the seller, and another \$0.8 million by transferring other assets to the seller.

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STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. Intangible Assets and Goodwill

Intangible assets consist of the following goodwill, Certificate of Need (“CON”) licenses and lease rights:

	Goodwill including CON Licenses	Lease Rights	Total
	(Amounts in \$000's)		
Balances, December 31, 2022			
Gross	\$ 1,323	\$ 54,577	\$ 55,900
Accumulated amortization	-	(44,268)	(44,268)
Net carrying amount	<u>1,323</u>	<u>10,309</u>	<u>11,632</u>
Amortization	-	(2,271)	(2,271)
Balances, September 30, 2023			
Gross	1,323	54,577	55,900
Accumulated amortization	-	(46,539)	(46,539)
Net carrying amount	<u>\$ 1,323</u>	<u>\$ 8,038</u>	<u>\$ 9,361</u>

<u>Balances, December 31, 2023</u>			
Gross	\$	1,323	\$ 54,577 \$ 55,900
Accumulated amortization		-	(47,296) (47,296)
Net carrying amount		1,323	7,281 8,604
Acquisition of lease rights		-	18,000 18,000
Amortization		-	(3,318) (3,318)
<u>Balances, September 30, 2024</u>			
Gross		1,323	72,577 73,900
Accumulated amortization		-	(50,614) (50,614)
Net carrying amount	\$	1,323	\$ 21,963 \$ 23,286

Estimated amortization expense for all lease rights for each of the future years ending December 31, is as follows:

	Amortization of Lease Rights (Amounts in \$000's)
2024 (three months)	\$ 1,207
2025	4,840
2026	2,475
2027	2,261
2028	1,876
Thereafter	9,304
Total	\$ 21,963

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. Leases

As of September 30, 2024, and December 31, 2023, the Company had leased 114 facilities (104 properties) and 107 facilities (97 properties), respectively, to tenant/operators in the States of Arkansas, Illinois, Indiana, Kentucky, Michigan, Ohio, Oklahoma, Tennessee and Texas. As of September 30, 2024, and December 31, 2023, all of the Company's facilities were leased. Most of these facilities are leased on a triple net basis, meaning that the lessee (*i.e.*, operator of the facility) is obligated under the lease for all expenses of the property in respect to insurance, taxes and property maintenance, as well as the lease payments.

The following table provides additional information regarding the properties owned/leased by the Company for the periods indicated:

	September 30, 2024	December 31, 2023
Cumulative number of facilities (properties)	114 (104)	107 (97)
Cumulative number of licensed beds	12,889	12,201

The following table provides additional information regarding the facilities leased by the Company as of September 30, 2024:

<u>State</u>	<u>Number of Operational Beds/Units</u>	<u>Owned by Company</u>	<u>Leased by Company</u>	<u>Total</u>
Arkansas	1,568	14	-	14
Illinois	4,226	20	-	20
Indiana	3,318	39	1	40
Kentucky	1,163	11	-	11
Michigan	100	1	-	1
Ohio	238	4	-	4
Oklahoma	137	2	-	2
Tennessee	1,412	16	-	16
Texas	727	6	-	6
Total Facilities	<u>12,889</u>	<u>113</u>	<u>1</u>	<u>114</u>

Facility Type

Skilled Nursing Facilities	12,528	102	1	103
Long-Term Acute Care Hospitals	63	2	-	2
Assisted Living Facility	298	9	-	9
Total facilities	<u>12,889</u>	<u>113</u>	<u>1</u>	<u>114</u>

As of September 30, 2024, total future minimum rental revenues for the Company's tenants are as follows:

<u>Year</u>	<u>Amount</u>
<u>(Amounts in \$000s)</u>	
2024 (three month period)	\$ 25,068
2025	98,251
2026	89,264
2027	90,569
2028	87,446
Thereafter	342,614
Total	<u>\$ 733,212</u>

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. Leases (Cont.)

The following table provides summary information regarding the number of operational beds associated with a property leased by the Company and subleased to third-party operators:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Number of facilities leased and subleased to third parties	1	1
Number of operational beds	68	68

Right of use assets and operating lease liabilities are disclosed as separate line items in the condensed consolidated balance sheets and are valued based on the present value of the future minimum lease payments at the lease

commencement. As the Company's leases do not provide an implicit rate, the Company used its incremental borrowing rate based on the information available at the adoption date in determining the present value of future payments. Lease expense is recognized on a straight-line basis over the lease term. The Company's operating lease obligation is for one skilled nursing facility in Indiana. The Indiana lease has an initial term that expires on March 1, 2028, and has two five-year renewal options. The lease is a triple net lease, which requires the Company to pay real and personal property taxes, insurance expenses and all capital improvements. The Company subleases the building as part of the Indiana master lease. Based on the sublease with the Company's tenant, the tenant is required to pay real and personal property taxes, insurance expenses and all capital improvements. The Company leased two other facilities in Tennessee starting in January 2024. However, The Company acquired these facilities on August 31, 2024 and the Tennessee facilities are now fully owned by The Company.

The components of lease expense and other lease information are as follows (dollars in thousands):

	Nine Month Period ended September 30,		Three Month Period ended September 30,	
	2024	2023	2024	2023
Operating lease cost	\$ 564	296	180	99

	September 30, 2024	December 31, 2023
Operating lease right of use asset	\$ 1,290	\$ 1,542
Operating lease liability	\$ 1,290	\$ 1,542
Weighted average remaining lease term-operating leases (in years)	3.3	4.25
Weighted average discount rate	4.1%	4.1%

Future minimum operating lease payments under non-cancellable leases as of September 30, 2024, reconciled to the Company's operating lease liability presented on the condensed consolidated balance sheets are:

	(Amounts in \$'000s)
2024 (three month period)	\$ 99
2025	397
2026	397
2027	397
2028	100
Total	\$ 1,390
Less Interest	(100)
Total operating lease liability	\$ 1,290

Other Properties leased by the Company

The Company, through one of its subsidiaries, leases its office spaces from a related party. Rental expense under the leases for the nine-month periods ended September 30, 2024 and 2023, was \$160,000 and \$157,000, respectively. Rental expense under the leases for the three-month periods ended September 30, 2024 and 2023, were \$53,000 and \$52,000, respectively.

Bonds, Notes Payable and Other Debt consist of the following:

	Weighted Interest Rate at September 30, 2024	September 30, 2024	December 31, 2023
(Amounts in \$'000s)			
HUD guaranteed loans	3.26%	\$ 264,126	\$ 271,340
Bank loans	8.42%	164,717	164,810
Series A, C and D Bonds	7.13%	155,665	102,995
Gross Bonds, Notes Payable and other Debt		\$ 584,508	\$ 539,145
Debt issuance costs		(4,879)	(2,659)
Net Bonds, Notes Payable and other Debt		\$ 579,629	\$ 536,486

Principal payments on the Bonds, Notes Payable and Other Debt payable through maturity are as follows (amounts in \$'000s):

Year Ending December 31,	Amount
2024 (three-month period)	\$ 3,252
2025	23,588
2026	161,854
2027	96,250
2028	70,250
Thereafter	229,314
	<u>\$ 584,508</u>

Debt Covenant Compliance

As of September 30, 2024 and December 31, 2023, the Company was party to approximately 42 and 41 outstanding credit related instruments, respectively. These instruments included credit facilities, mortgage notes, bonds and other credit obligations. Some of the instruments include financial covenants. Covenant provisions include, but are not limited to, DSCR (defined as debt service coverage ratio), and minimum levels of EBITDA (defined as earnings before interest, tax, and depreciation and amortization) or EBITDAR (defined as earnings before interest, tax, depreciation and amortization and rental expense). Some covenants are based on annual financial metric measurements, and some are based on quarterly financial metric measurements. The Company routinely tracks and monitors its compliance with its covenant provisions. As of September 30, 2024, the Company was in compliance with all financial and administrative covenants.

Commercial Bank Mortgage Loan Facility

On March 21, 2022, the Company obtained a mortgage loan facility with a commercial bank pursuant to which the Company borrowed approximately \$105 million. The facility provides for monthly payments of principal and interest based on a 20-year amortization with a balloon payment due in March 2027. The interest rate is based on the one-month Secured Overnight Financing Rate (“SOFR”) plus a margin of 3.5% and a floor of 4% (as of September 30, 2024 the interest rate was 8.42%). As of September 30, 2024 and December 31, 2023, total amounts outstanding were \$95.1 million and \$98.8 million, respectively. This facility loan is collateralized by 21 properties owned by the Company. The loan proceeds were used to repay the Series B Bonds and prepay commercial loans not secured by HUD guaranteed mortgages.

On August 25, 2023, the Company closed a mortgage loan facility with a commercial bank pursuant to which the Company borrowed approximately \$66 million. The facility is an interest only facility for the first 12 months and provides for monthly payments of principal based on a 20-year amortization starting in the second year with a balloon payment due in August 2028. The rate is based on the one-month SOFR plus a margin of 3.5% and a floor of 4% (as

of September 30, 2024, the rate was 8.42%). As of September 30, 2024 and December 31, 2023, total amounts outstanding were \$65.3 million and \$66.0 million, respectively. This facility loan is collateralized by and used for the acquisition of 19 properties (24 facilities).

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Commercial Bank Mortgage Loan Facility (Cont.)

Both credit facilities financial covenants consist of (i) a covenant that the ratio of the Company's indebtedness to its EBITDA cannot exceed 8.0 to 1, (ii) a covenant that the ratio of the Company's net operating income to its debt service before dividend distribution is at least 1.20 to 1.00 for each fiscal quarter as measured pursuant to the terms of the loan agreement, (iii) a covenant that the ratio of the Company's net operating income to its debt service after dividend distribution is at least 1.05 to 1.00 for each fiscal quarter as measured pursuant to the terms of the loan agreement, and (iii) a covenant that the Company's GAAP equity is at least \$20.0 million. As of September 30, 2024, the Company was in compliance with these loan covenants.

Mortgage Loans Guaranteed by HUD

As of September 30, 2024 and December 31, 2023, the Company had HUD guaranteed mortgage loans from financial institutions of approximately \$264 million and \$271 million, respectively. These loans were secured by first mortgage liens on the applicable properties, assignments of rent and second liens on the operator's assets. In addition to interest payments, the Company pays HUD annual mortgage insurance premiums of 0.65% of the loan balances. As a result, the overall interest rate paid by the Company with respect to the HUD guaranteed loans as of September 30, 2024, was 3.91% and December 31, 2023 was 3.93% (including the mortgage insurance premium).

Series A Bonds

In November 2015, the Company, through a subsidiary, issued Series A Bonds in the face amount of NIS 265.2 million (\$68 million) and received the net amount after issuance costs of NIS 251.2 million (\$64.3 million). Since then, the Company increased the series amount twice in September 2016 and May 2017 and received a combined net amount of \$30.1 million. The Series A Bonds interest rate was 6.4% as of June 30, 2023. The effective weighted interest rate on these bonds, including those issued in the additional offering, is 7.4%. In June 2023, Standard & Poor's provided rating for the Series A Bonds of iA. Series A bonds were paid off on November 8, 2023.

Series A Bonds

In August 2024, Strawberry Fields, Inc completed, directly, an initial offering on the Tel Aviv Stock Exchange ("TASE") of Series A Bonds with a par value of NIS 145.6 million (\$37.1 million). The series A Bonds were issued at par. Offering and issuance costs of approximately \$1.0 million were incurred at closing.

Exchange of Series D Bonds for Series A Bonds

In September 2024 the Company made an exchange tender offer of outstanding Series D Bonds for Series A Bonds. The interest rate on Series D Bonds is 9.1% per annum. The exchange offer rate was 1.069964 Series A Bonds per Series D Bonds. As a result of this offer, 47,245,161 NIS Series D Bonds (\$12.7 million) were exchanged for 50,550,621 NIS Series A Bonds (\$13.6 million).

As of September 30, 2024 the outstanding balance of the Series A Bonds were \$49.7 million, given the August 2024 issuance and the September 2024 exchange of Series D bonds for Series A bonds.

Interest

The Series A Bonds have an interest rate of 6.97% per annum. In July 2024, Standard & Poor's provided an initial rating for the Series A Bonds of iA+.

Interest on the Series A Bonds is payable semi-annually in arrears on March 31 and September 30 of each year. The interest rate may increase if certain financial ratios are not achieved, as discussed below.

Payment Terms

The principal amount of the Series A Bonds is payable in three annual installments due on September 30 of each of the years 2024 through 2026. The first two principal payments are equal to 6% of the original principal amount of the Series A Bonds, and the last principal payments is equal to the outstanding principal amount of the Series A Bonds.

Financial Covenants

Until the date of full repayment of the Series A Bonds, the Company must comply with certain financial covenants described below. The application of the covenants is based on the financial statements of the Company as prepared under the GAAP accounting method. The financial covenants are as follows:

- On the last day of each calendar quarter, the consolidated equity of the Company (excluding minority rights), as set forth in the Company's financial statements, will not be less than USD 20 million
- On the last day of each calendar quarter, the ratio between the Financial Debt and EBITDA shall not exceed 10
- The DSCR shall not be less than 1.05

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Dividend Restrictions

As long as the Company does not breach any of the Financial Covenants, no distribution restriction shall hinder the Company. If the Company is in non-compliance one or more of the Financial Covenants, the Company can make a distribution in an amount that does not exceed the amount required to meet the U.S. legal requirements applicable to REITs.

Increase in Interest Rate

In the event that

- The Company's bond rating iA+ or equivalent is lowered
- The EBITDA ratio exceeds 8
- EBITDA to total debt service payments fall below 1.10
- Consolidated Equity is less than USD \$30 million

An additional rate of 0.25% will take place per deviation from the financial covenants, with a maximum additions rate not to exceed 1.5% above the interest rate determined on the tender.

Security

The Company has committed not to pledge its assets under general liens without obtaining the consent in advance of the Bond holders. Nevertheless, The Company is entitled to register specific liens on its properties and also to provide guarantees; and its subsidiaries are entitled to register liens, including general and specific, on their assets.

Additional Bonds

The British Virgin Islands Company, (BVI Company) can issue additional Series A Bonds at any time not to exceed a maximum outstanding of NIS 550 million (or \$148.2 million).

Redemption Provisions

The Company may, at its discretion, call the Series A Bonds for early repayment. In the event of the redemption of all of the Series A Bonds, the Company would be required to pay the highest of the following amounts:

- the market value of the balance of the Series A Bonds in circulation which will be determined based on the average closing price of the Series A Bonds for thirty (30) trading days before the date on which the board of directors resolves to undertake the early redemption;
- the par value of the Series A Bonds available for early redemption in circulation (i.e., the principal balance of the Series A Bonds plus accrued interest until the date of the actual early redemption); or
- the balance of the payments under the Series A Bonds (consisting of future payments of principal and interest), when discounted to their present value based on the annual yield of the Israeli government bonds plus an “additional rate” of 3.0% per annum.

Change of Control

The holders of a majority of the Series A Bonds may accelerate the outstanding balance of the Bonds if the control of the Company is transferred, directly or indirectly, unless the transfer of control is approved by the holders of a majority of the Series A Bonds.

For purposes of the Series A Bonds, the “controlling stockholders” of the Company are deemed to be Moishe Gubin and Michael Blisko.

For the purpose of this provision, a transfer of control means a change of control of the Company such that the Company has a controlling stockholder that is not any of the “controlling stockholders” and/or is in the hands of any of their immediate family members (including through trusts that the controlling stockholders and/or any of their immediate family members are the beneficiaries under and/or are their managers). In this regard, “control” is defined in the Israeli Companies Law

Series C Bonds

In July 2021, the Strawberry Fields REIT, LTD (“BVI Company”), a wholly owned subsidiary of the Company, completed an initial offering on the Tel Aviv Stock Exchange (“TASE”) of Series C Bonds with a par value of NIS 208.0 million (\$64.7 million). These Series C Bonds were issued at par. Offering and issuance costs of approximately \$1.7 million were incurred at closing. During February 2023, the Company issued additional Series C Bonds with a par value of NIS 40.00 million (\$11.3 million) and raised a gross amount of \$10.73 million (NIS 38.1 million). The Bonds were issued at a price of 95.25%. As of September 30, 2024 and December 31, 2023, the outstanding balances of the Series C Bonds were \$55.4 million and \$60.8 million, respectively.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Series C Bonds (Cont.)

Interest

The Series C Bonds initially bore interest at a rate of 5.7% per annum. In July 2021, Standard & Poor's provided an initial rating for the Series C Bonds of iIA+.

Interest on the Series C Bonds is payable semi-annually in arrears on July 31 and January 31 of each year. The interest rate may increase if certain financial ratios are not achieved, as discussed below.

Payment Terms

The principal amount of the Series C Bonds is payable in five annual installments due on July 31 of each of the years 2022 through 2026. The first four principal payments are equal to 6% of the original principal amount of the Series C Bonds, and the last principal payments is equal to the outstanding principal amount of the Series C Bonds.

Financial Covenants

Until the date of full repayment of the Series C Bonds, the BVI Company must comply with certain financial covenants described below. The application of the covenants is based on the financial statements of the BVI Company as prepared under the IFRS accounting method. The financial covenants are as follows:

- The stockholders' equity of the BVI Company may not be less than \$230 million.
- The ratio of the condensed consolidated stockholders' equity of the BVI Company to its total condensed consolidated balance sheet may not be less than 25%.
- The ratio of the adjusted net financial debt to adjusted EBITDA of the BVI Company (for the past four quarters) may not exceed 12.
- The ratio of the outstanding amount of the Series C Bonds to the fair market value of the collateral may not exceed 75%.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Series C Bonds (Cont.)

Dividend Restrictions

The indenture for the Series C Bonds limits the amount of dividends that may be paid by the BVI Company to the Operating Partnership. The BVI Company may not make any distribution unless all of the following conditions are fulfilled (with all amounts calculated under IFRS):

- The distribution amount may not exceed 80% of the net profit after tax that is recognized in the most recent condensed consolidated financial statements of the BVI Company, less profits or losses arising from a change in accounting methods, net of revaluation profits/losses (that have not yet been realized) arising from a change in the fair value of the assets with respect to the fair value in the prior reporting period.
- The ratio of the consolidated stockholders' equity of the BVI Company to its total consolidated balance sheet may not be less than 30%.
- The distributable profits for which no distribution was performed in a specific year will be added to the following quarters.
- The BVI Company's equity at the end of the last quarter, before the distribution of dividends, less the dividends distributed, may not be less than \$250 million.

As of September 30, 2024, the BVI Company met these financial conditions, and the BVI Company was not in violation of any of its material undertakings to the holders of the Series C Bonds.

Increase in Interest Rate

In the event that:

- (i) the stockholders' equity of the BVI Company (excluding minority interests) is less than \$250 million;
- (ii) the ratio of the adjusted net financial debt to adjusted EBITDA (for the latest four quarters) exceeds 11;
- (iii) the ratio of the consolidated equity of the BVI Company to total consolidated assets of the BVI Company is below 27%; or
- (iv) the ratio of outstanding amount of the Series C Bonds to the fair market value of the collateral for the Series C Bonds exceeds 75%,

then, in each case, the interest on the Series C Bonds will increase by an additional 0.5% annually, but only once with respect to each failure to meet these requirements. Compliance with these financial covenants is measured quarterly.

Additionally, if a decline in the rating of the Series C Bonds should take place, then for each single ratings decrease, the interest will be increased by 0.25% per year, up to a maximum increment of 1.25% annually.

In any case, the total increase in the interest rate as a result of the above adjustments will not exceed 1.5% per year. The increases in the interest rate will also be reversed if the BVI Company regains compliance.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Series C Bonds (Cont.)

Security

The Series C Bonds are secured by first mortgage liens on nine properties. In addition, the Series C Bonds are also secured by interest and expenses reserves. The BVI Company has agreed not to pledge its assets pursuant to a general lien without obtaining the prior consent of the holders of the Series C Bonds, provided that the BVI Company is entitled to register specific liens on its properties and also to provide guarantees and its subsidiaries are entitled to register general and specific liens on their assets.

Under the terms of the indenture for the Series C Bonds, the BVI Company can take out properties from the collateral (in case of HUD refinancing) or to add properties and increase the Series C Bonds as long as the ratio of outstanding amount of the Series C Bonds to fair market value of the collateral is not more than 65%. In addition, starting from July 1, 2023, if the fair market value of the collateral is below 55%, the BVI Company can request to release collateral so the fair market value will increase to 55%. As of September 30, 2024, the ratio of outstanding Series C Bonds to fair value of the collateral was 49.7%.

Additional Bonds

The BVI Company can issue additional Series C Bonds at any time not to exceed a maximum outstanding of NIS 630 million (or \$169.8 million).

Redemption Provisions

The BVI Company may, at its discretion, call the Series C Bonds for early repayment. In the event of the redemption of all of the Series C Bonds, the BVI Company would be required to pay the highest of the following amounts:

- the market value of the balance of the Series C Bonds in circulation which will be determined based on the average closing price of the Series C Bonds for thirty (30) trading days before the date on which the board of directors resolves to undertake the early redemption;
- the par value of the Series C Bonds available for early redemption in circulation (i.e., the principal balance of the Series C Bonds plus accrued interest until the date of the actual early redemption); or
- the balance of the payments under the Series C Bonds (consisting of future payments of principal and interest), when discounted to their present value based on the annual yield of the Israeli government bonds plus an “additional rate.” The additional rate will be 1.0% per annum for early repayment performed by September 30, 2022, 2.5% from October 1, 2022 to September 30, 2023, and 3.0% thereafter.

Change of Control

The holders of a majority of the Series C Bonds may accelerate the outstanding balance of the Bonds if the control of the BVI Company is transferred, directly or indirectly, unless the transfer of control is approved by the holders of a majority of the Series C Bonds.

For purposes of the Series C Bonds, the “controlling stockholders” of the BVI Company are deemed to be Moishe Gubin and Michael Blisko.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Change of Control (Cont.)

For the purpose of this provision, a transfer of control means a change of control of the BVI Company such that the BVI Company has a controlling stockholder that is not any of the “controlling stockholders” and/or is in the hands of any of their immediate family members (including through trusts that the controlling stockholders and/or any of their immediate family members are the beneficiaries under and/or are their managers). In this regard, “control” is defined in the Israeli Companies Law.

Series D Bonds

In June 2023, the BVI Company completed an initial offering on the Tel Aviv Stock Exchange (“TASE”) of Series D Bonds with a par value of NIS 82.9 million (\$22.9 million). These Series D Bonds were issued at par. Offering and issuance costs of approximately \$0.6 million were incurred at closing. During July 2023, the BVI Company issued additional Series D Bonds with a par value of NIS 70.0 million and raised a gross amount of \$19.2 million (NIS 69.8 million). The Bonds were issued at a price of 99.7%. On February 8, 2024, the BVI Company issued additional Series D Bonds with a par value of NIS 100.0 million and raised a net amount of \$25.7 million (NIS 98.2 million). The Bonds were issued at a price of 106.3%.

Exchange of Series D Bonds for Series A Bonds

In September 2024 the Company made an exchange tender offer of outstanding Series D Bonds for par value A Bonds. The interest rate on Series A Bonds is 6.97% per annum. The exchange offer rate was 1.069964 Series A Bonds per Series D Bonds. As a result of this offer, 47,245,161 NIS Series D Bonds (\$12.7 million) were exchanged for 50,550,621 NIS Series A Bonds (\$13.6 million).

As of September 30, 2024 and December 31, 2023, the outstanding balance of the Series D Bonds were \$50.6 million and \$42.2 million, respectively.

Interest

The Series D Bonds initially bore interest at a rate of 9.1% per annum. In June 2023, Standard & Poor’s provided an initial rating for the Series D Bonds of iIA.

Interest on the Series D Bonds is payable semi-annually in arrears on March 31 and September 30 of each year. The interest rate may increase if certain financial ratios are not achieved, as discussed below.

Payment Terms

The principal amount of the Series D Bonds is payable in three annual installments due on September 30 of each of the years 2024 through 2026. The first two principal payments are equal to 6% of the original principal amount of the Series D Bonds, and the last principal payments is equal to the outstanding principal amount of the Series D Bonds.

Financial Covenants

Until the date of full repayment of the Series D Bonds, the BVI Company must comply with certain financial covenants described below. The application of the covenants is based on the financial statements of the BVI Company as prepared under the IFRS accounting method. The financial covenants are as follows:

- The stockholders’ equity of the BVI Company may not be less than \$230 million.
- The ratio of the condensed consolidated stockholders’ equity of the BVI Company to its total condensed consolidated balance sheet may not be less than 25%.
- The ratio of the adjusted net financial debt to adjusted EBITDA of the BVI Company (for the past four quarters) may not exceed 12.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Series D Bonds (Cont.)

Dividend Restrictions

The indenture for the Series D Bonds limits the amount of dividends that may be paid by the BVI Company to its stockholders. The BVI Company may not make any distribution unless all of the following conditions are fulfilled (with all amounts calculated under IFRS):

- The distribution amount may not exceed 80% of the net profit after tax that is recognized in the most recent condensed consolidated financial statements of the BVI Company, less profits or losses arising from a change in accounting methods, net of revaluation profits/losses (that have not yet been realized) arising from a change in the fair value of the assets with respect to the fair value in the prior reporting period.
- The ratio of the consolidated stockholders' equity of the BVI Company to its total consolidated balance sheet may not be less than 30%.
- The distributable profits for which no distribution was performed in a specific year will be added to the following quarters.
- The BVI Company's equity at the end of the last quarter, before the distribution of dividends, less the dividends distributed, may not be less than \$250 million.
- The BVI Company meets the financial conditions described above, and the BVI Company is not in violation of all and/or any of its material undertakings to the holders of the Series D Bonds as of September 30, 2024.

Increase in Interest Rate

In the event that:

- (i) the stockholders' equity of the BVI Company (excluding minority interests) is less than \$250 million;
- (ii) the ratio of the adjusted net financial debt to adjusted EBITDA (for the latest four quarters) exceeds 11;
- (iii) the ratio of the consolidated equity of the BVI Company to total consolidated assets of the BVI Company is below 27%; or

then, in each case, the interest on the Series D Bonds will increase by an additional 0.5% annually, but only once with respect to each failure to meet these requirements. Compliance with these financial covenants is measured quarterly.

Additionally, if a decline in the rating of the Series D Bonds should take place, then for each single ratings decrease, the interest will be increased by 0.25% per year, up to a maximum increment of 1.25% annually.

In any case, the total increase in the interest rate as a result of the above adjustments will not exceed 1.5% per year. The increases in the interest rate will also be reversed if the BVI Company regains compliance.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Series D Bonds (Cont.)

Security

The BVI Company has committed not to pledge its assets under general liens without obtaining the consent in advance of the Bond holders. Nevertheless, the BVI Company is entitled to register specific liens on its properties and also to provide guarantees; and its subsidiaries are entitled to register liens, including general and specific, on their assets.

Additional Bonds

The BVI Company can issue additional Series D Bonds at any time not to exceed a maximum outstanding of NIS 450 million (or \$120 million).

Redemption Provisions

The BVI Company may, at its discretion, call the Series D Bonds for early repayment. In the event of the redemption of all of the Series D Bonds, the BVI Company would be required to pay the highest of the following amounts:

- the market value of the balance of the Series D Bonds in circulation which will be determined based on the average closing price of the Series D Bonds for thirty (30) trading days before the date on which the board of directors resolves to undertake the early redemption;
- the par value of the Series D Bonds available for early redemption in circulation (i.e., the principal balance of the Series D Bonds plus accrued interest until the date of the actual early redemption); or
- the balance of the payments under the Series D Bonds (consisting of future payments of principal and interest), when discounted to their present value based on the annual yield of the Israeli government bonds plus an “additional rate.” The additional rate will be 1.0% per annum for early repayment performed by September 30, 2024, and 3.0% thereafter.

Change of Control

The holders of a majority of the Series D Bonds may accelerate the outstanding balance of the Bonds if the control of the BVI Company is transferred, directly or indirectly, unless the transfer of control is approved by the holders of a majority of the Series D Bonds.

For purposes of the Series D Bonds, the “controlling stockholders” of the BVI Company are deemed to be Moishe Gubin and Michael Blisko.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. Bonds, Notes Payable and Other Debt (Cont.)

Change of Control (Cont.)

For the purpose of this provision, a transfer of control means a change of control of the BVI Company such that the BVI Company has a controlling stockholder that is not any of the “controlling stockholders” and/or is in the hands of any of their immediate family members (including through trusts that the controlling stockholders and/or any of their immediate family members are the beneficiaries under and/or are their managers). In this regard, “control” is defined in the Israeli Companies Law.

NOTE 8. Commitments and Contingencies

Commitments

The Company guarantees from time-to-time obligations of its wholly-owned subsidiaries.

Contingencies

The Company’s operating results and financial condition are dependent on the ability of its tenants to meet their lease obligations to us.

We are not currently a party to any material legal proceedings, that are not covered by insurance and expected to be resolved within policy limits, other than the following:

In March 2020, Joseph Schwartz, Rosie Schwartz and certain companies owned by them filed a complaint in the U.S. District Court for the Northern District of Illinois against Moishe Gubin, Michael Blisko, the Predecessor Company and 21 of its subsidiaries, as well as the operators of 17 of the facilities operated at our properties. The complaint was related to the Predecessor Company’s acquisition of 16 properties located in Arkansas and Kentucky that were completed between May 2018 and April 2019 and the attempt to purchase an additional five properties located in Massachusetts. The complaint was dismissed by the Court in 2020 on jurisdictional grounds. The plaintiffs did not file an appeal with respect to this action, and the time for an appeal has expired.

In August 2020, Joseph Schwartz, Rosie Schwartz and several companies controlled by them filed a second complaint in the Circuit Court in Pulaski County, Arkansas. The second complaint had nearly identical claims as the federal case, but was limited to matters related to the Predecessor Company’s acquisition of properties located in Arkansas. The sellers, which were affiliates of Skyline Health Care, had encountered financial difficulties and requested the Predecessor Company to acquire these properties. The defendants have filed an answer denying the plaintiffs’ claims and asserting counterclaims based on breach of contract. This case has been dismissed without prejudice.

In January 2021, Joseph Schwartz, Rosie Schwartz and certain companies owned by them filed a third complaint in Illinois state court in Cook County, Illinois, which has nearly identical claims to the initial federal case but was limited to claims related to the Kentucky and Massachusetts properties. The complaint has not been properly served on any of the defendants, and, accordingly, the defendants did not respond to the complaint. On January 11, 2023, the Cook County Circuit Court granting a motion to quash service on all defendants. In March 2023, the plaintiffs filed a new complaint and again attempted to serve it on the defendants. It is the defendants’ position that service was (once again, potentially) defective and sought a dismissal of the matter for want of prosecution by Joseph Schwartz, Rosie Schwartz and certain companies owned by them. The dismissal was granted, but has been appealed to the Illinois Appellate Court, and now has been dismissed.

In April of 2024, Joseph Schwartz, Rosie Schwartz and several companies controlled by them filed a third complaint in the Circuit Court in Pulaski County, Arkansas. This third complaint had nearly identical claims as the federal case and the Illinois state court matter.

NOTE 8. Commitments and Contingencies (Cont.)

In each of these complaints, the plaintiffs asserted claims for fraud, breach of contract and rescission arising out of the defendants' alleged failure to perform certain post-closing obligations under the purchase contracts. We have potential direct exposure for these claims because the subsidiaries of the Predecessor Company that were named as defendants are now subsidiaries of the Operating Partnership. Additionally, the Operating Partnership is potentially liable for the claims made against Moishe Gubin, Michael Blisko and the Predecessor Company pursuant to the provisions of the contribution agreement, under which the Operating Partnership assumed all of the liabilities of the Predecessor Company and agreed to indemnify the Predecessor Company and its affiliates for such liabilities. We and the named defendants believe that the claims set forth in the complaints are without merit. The named defendants intend to vigorously defend the litigation and to assert counterclaims against the plaintiffs based on their failure to fulfill their obligations under the purchase contracts, interim management agreement, and operations transfer agreements. We believe this matter will be resolved without a material adverse effect to the Company.

As noted above, the March 2020 and January 2021 and April 2024 complaints also related to the Predecessor Company's planned acquisition of five properties located in Massachusetts. A subsidiary of the Predecessor Company purchased loans related to these properties in 2018 for a price of \$7.74 million with the expectation that the subsidiaries would acquire title to the properties and the loans would be retired. The subsidiary subsequently advanced \$3.1 million under the loans to satisfy other liabilities related to the properties. The planned acquisition/settlement with the sellers/owners and/borrowers was not consummated because the underlying tenants of the properties surrendered their licenses to operate healthcare facilities on these properties.

The Predecessor Company intends to institute legal proceedings to collect the outstanding amount of these loans and to assert related claims against the sellers and their principals for the unpaid principal balances as well as protective advances and collection costs. In connection with enforcing their rights, in July 2022, the Company foreclosed, and (as lender) sold four of the five properties at auction for the total amount of \$4.4 million. In December 2022, the Company took title on the fifth property with an estimated fair value of \$1.2 million.

Note 9. Equity Incentive Plan

The Company has adopted the 2021 Equity Incentive Plan (the "Plan"). The Plan permits the grant of both options qualifying under Section 422 of the Internal Revenue Code ("incentive stock options") and options not so qualifying, and the grant of stock appreciation rights, stock awards, incentive awards, performance units, and other equity-based awards. A total of 250,000 shares have been authorized to be granted under the Plan. On May 30, 2024, shareholders approved an amendment to increase the number of shares authorized to be granted under the plan to 1,000,000 shares.

As of September 30, 2024, 1,000,000 shares were available for grant. No shares were issued during the nine month periods ended September 30, 2024 and 2023.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. Stockholders' Equity and Distributions

The Company elected and qualified to be treated as a REIT commencing with the taxable year ended December 31, 2022. U.S. federal income tax law requires that a REIT distribute annually at least 90% of its net taxable income, excluding net capital gains, and that it pays tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income, including net capital gains. In addition, a REIT is required to pay a 4% nondeductible excise tax on the amount, if any, by which the distributions that it makes in a calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years.

As of September 30, 2024, there were a total of 7,411,828 shares of common stock issued and outstanding. The outstanding shares were held by a total of approximately 1,331 stockholders of record, including certain affiliates of the Company who held 793,143 of these shares.

At September 30, 2024, there were 44,816,085 OP units outstanding. Under the terms of the partnership agreement for the Operating Partnership, such holders have the right to request the cash redemption of their OP units. If a holder requests redemption, the Company has the option of issuing shares of common stock to the requesting holder instead of cash. The OP unit holders are required to obtain Company approval prior to the sale or transfer of any or all of such holder's OP units.

The Company has reserved a total of 44,816,085 shares of common stock that may be issued, at the Company's option, upon redemption of the OP units outstanding as of September 30, 2024.

NOTE 11. Related Party Transactions and Economic Dependence

The following entities and individuals are considered to be Related Parties:

Moishe Gubin	CEO & Chairman of the Board and a stockholder of the Company
Michael Blisko	Director and a stockholder of the Company

Lease Agreements with Related Parties

As of September 30, 2024 and December 31, 2023, each of the Company's facilities was leased and operated by separate tenants. Each tenant is an entity that leases the facility from one of the Company's subsidiaries and operates the facility as a healthcare facility. The Company had 68 tenants out of 114 who were related parties as of September 30, 2024, and 64 tenants out of 107 who were related parties as of December 31, 2023. Most of the lease agreements are triple net leases.

STRAWBERRY FIELDS REIT, INC. and Subsidiaries NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. Related Party Transactions and Economic Dependence (cont.)

Lease Agreements with Related Parties (cont.)

The related party interests were via Gubin Enterprises LP and Blisko Enterprises LP. Gubin Enterprises LP is controlled by Moishe Gubin, Chairman of the Board. Blisko Enterprises LP is controlled by Michael Blisko, who serves as Director on the Board of Directors. The related party facilities are concentrated in 3 states: Indiana, Illinois and Tennessee. As of September 30, 2024, in these states, the Company leased 40, 12 and 16 facilities, respectively to related parties.

Balances with Related Parties

	September 30, 2024	December 31, 2023
	(amounts in \$000s)	
Straight-line rent receivable	\$ 16,912	\$ 15,204
Tenant portion of replacement reserve	\$ 8,952	\$ 9,683
Notes receivable	\$ 6,494	\$ 7,075

Payments from and to Related Parties

	Nine Months ended		Three Months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(amounts in \$000s)		(amounts in \$000s)	
Rental income received from related parties	\$ 53,200	40,616	\$ 18,277	14,330

Other Related Party Relationships

On September 30, 2024 and December 31, 2023, the Company had approximately \$5.1 million and \$1.2 million, respectively, on deposit with OptimumBank. Mr. Gubin is the Chairman of the Board of OptimumBank, and Mr. Blisko is a director.

On June 14, 2022, the Company purchased an \$8 million note held by Infinity Healthcare Management, a company controlled by Mr. Blisko and Mr. Gubin. The note was issued by certain unaffiliated tenants. It bears interest at 7% per annum, payable annually. The principal amount of the note becomes payable 120 days after the date on which tenants are first able to exercise the purchase option for the properties contained in their lease. The purchase option becomes exercisable upon the Company's ability to deliver fee simple title to the properties. If the tenants do not exercise the option within this period, then the outstanding balance of the note will thereafter be payable in thirty-six (36) equal monthly installments of principal and interest.

NOTE 12. Income Taxes

The Company elected and qualified to be taxed as a REIT for federal income tax purposes commencing with the year ended December 31, 2022.

As a REIT, the Company generally is not subject to federal income tax on its net taxable income that it distributes currently to its stockholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If the Company fails to qualify for taxation as a REIT in any taxable year and does not qualify for certain statutory relief provisions, the Company's income for that year will be taxed at regular corporate rates, and the Company would be disqualified from taxation as a REIT for the four taxable years following the year during which the Company ceased to qualify as a REIT. Even if the Company qualifies as a REIT for federal income tax purposes, it may still be subject to state and local taxes on its income and assets and to federal income and excise taxes on its undistributed income.

The Company follows recent accounting guidance relating to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-than-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

NOTE 13. Fair Value of Financial Instruments

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair value of short-term financial instruments such as cash and cash equivalents, restricted cash, accounts payable and accrued expenses approximate their carrying value on the condensed consolidated balance sheets due to their short-term nature. The Company's foreclosed real estate is recorded at fair value on a non-recurring basis and is included in real estate investments on the condensed consolidated balance sheets. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of market values by licensed appraisers or local real estate brokers and knowledge and experience of management. The fair values of the Company's remaining financial instruments that are not reported at fair value on the condensed consolidated balance sheets are reported below:

<i>(amounts in \$000s)</i>	Level	September 30, 2024		December 31, 2023	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Note payable, other debt, and bonds	3	\$ 584,508	\$ 575,400	\$ 539,145	\$ 533,055
Notes receivable, net	3	\$ 16,819	16,706	\$ 17,706	\$ 17,460

The fair value of the notes payable, other debt, bonds and notes receivable are estimated using a discounted cash flow analysis.

NOTE 14. Subsequent Events

On October 8, 2024, the Company entered into a Purchase and Sale Agreement with an unaffiliated seller with respect to eight healthcare facilities located in Missouri. The purchase price for the Facilities is \$87.5 million, payable at the closing. The facilities are currently leased under a master lease agreement to a group of third-party tenants. Under the master lease, the tenants currently pay annual rent on a triple net basis. The eight facilities are comprised of 1,111 licensed beds. The Company plans to purchase the facilities utilizing the Company's current working capital and funds provided by a third-party lender. The Company anticipates closing the acquisition before year-end; however, we can give no assurance that the closing will occur within this timeframe, or at all. The potential acquisition of the facilities is subject to substantial conditions to closing.

On October 11, 2024 the Company acquired an 86-bed skilled nursing facility in Indianapolis, Indiana. The acquisition was for \$6.0 million and the Company funded the acquisition utilizing cash from its balance sheet. The facility was added to an existing master lease with Infinity of Indiana.

On October 14, 2024, The BVI Company, a wholly owned subsidiary of the Company, issued additional Series C bonds with a par value of NIS 62.0 million (\$16.5 million) and raised a gross amount of NIS 61.6 million (\$16.4 million). The debentures were issued at a price of 99.3% to par.

NOTE 15. Financing Income (Expenses), Net

	Nine months ended September 30,		Three months ended September 30	
	2024	2023	2024	2023
	<i>(amounts in \$000s)</i>		<i>(amounts in \$000s)</i>	
Financing expenses				
Interest expenses with respect to bonds	\$ (7,825)	\$ (4,460)	\$ (3,089)	\$ (1,803)
Interest expenses on loans from banks and others	(16,848)	(14,046)	(5,731)	(6,161)
Interest expenses with respect to leases	(126)	(54)	(34)	(17)
Other financing expenses (including related parties), net	-	(247)	-	(150)
Total financing expenses	\$ (24,799)	\$ (18,807)	\$ (8,854)	\$ (8,131)
Financing income	\$ 771	\$ 824	\$ 264	\$ 266
Interest Expense, Net	\$ (24,028)	\$ (17,983)	\$ (8,590)	\$ (7,865)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Forward-Looking Statements**

Certain statements in this quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of the U.S. federal securities laws. Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. This Form 10-Q also contains forward-looking statements by third parties relating to market and industry data and forecasts; forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as the other forward-looking statements contained in this Form 10-Q. These forward-looking statements include information about possible or assumed future events, including, among other things, discussion and analysis of our future financial condition, results of operations, Funds From Operations ("FFO"), our strategic plans and objectives, cost management, potential property acquisitions, anticipated capital expenditures (and access to capital), amounts of anticipated cash distributions to our stockholders in the future and other matters. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and variations of these words and other similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and/or could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. Readers are cautioned to not place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

- risks and uncertainties related to the national, state and local economies, particularly the economies of Arkansas, Illinois, Indiana, Kentucky, Michigan, Ohio, Oklahoma, Tennessee and Texas, and the real estate and healthcare industries in general;
- availability and terms of capital and financing;
- the impact of existing and future healthcare reform legislation on our tenants, borrowers and guarantors;
- adverse trends in the healthcare industry, including, but not limited to, changes relating to reimbursements available to our tenants by government or private payors;
- competition in the long-term healthcare industry and shifts in the perception of various types of long-term care facilities, including skilled nursing facilities;

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Forward-Looking Statements (continued)**

- our tenants' ability to make rent payments;
- our dependence upon key personnel whose continued service is not guaranteed;
- availability of appropriate acquisition opportunities and the failure to integrate successfully;

- ability to source target-marketed deal flow;
- ability to dispose of assets held for sale for the anticipated proceeds or on a timely basis, or to deploy the proceeds therefrom on favorable terms;
- fluctuations in mortgage and interest rates;
- changes in the ratings of our debt securities;
- risks and uncertainties associated with property ownership and development;
- the potential need to fund improvements or other capital expenditures out of operating cash flow;
- potential liability for uninsured losses and environmental liabilities;
- the outcome of pending or future legal proceedings;
- changes in tax laws and regulations affecting REITs;
- our ability to maintain our qualification as a REIT; and
- the effect of other factors affecting our business or the businesses of our operators that are beyond our or their control, including natural disasters, other health crises or pandemics and governmental action, particularly in the healthcare industry.

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. New risks and uncertainties may also emerge from time to time that could materially and adversely affect us.

Overview

Strawberry Fields REIT, Inc. (the “Company”) is engaged in the ownership, acquisition, financing and triple-net leasing of skilled nursing facilities and other post-acute healthcare properties. Currently, our portfolio consists of 104 healthcare properties with an aggregate of 12,889 licensed beds. We hold fee title to 103 of these properties and hold one property under a long-term lease. These properties are located in Arkansas, Illinois, Indiana, Kentucky, Michigan, Ohio, Oklahoma, Tennessee and Texas. We generate substantially all our revenues by leasing our properties to tenants under long-term leases primarily on a triple-net basis, under which the tenant pays the cost of real estate taxes, insurance and other operating costs of the facility and capital expenditures. Each healthcare facility located at our properties is managed by a qualified operator with an experienced management team.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Overview (continued)

We employ a disciplined approach in our investment strategy by investing in healthcare real estate assets. We seek to invest in assets that will provide attractive opportunities for dividend growth and appreciation in asset value, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value. We expect to grow our portfolio by diversifying our investments by tenant, facility type and geography.

We are entitled to monthly rent paid by the tenants and we do not receive any income or bear any expenses from the operations of such facilities. As of September 30, 2024, the aggregate annualized average base rent under the leases for our properties was approximately \$109.2 million.

We elected a REIT status for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2022. We are organized in an UPREIT structure in which we own substantially all of our assets and conduct substantially all of our business through the Operating Partnership. We are the general partner of the Operating Partnership and as of the date of the report own approximately 14.2% of outstanding OP units.

Recent Developments

On January 1, 2024, the Company commenced its lease for two skilled nursing facilities with 248 licensed beds near Johnson City, Tennessee. The lease includes a purchase option which the Company intends to exercise once certain conditions precedent are met. On August 30, 2024, the Company exercised its purchase option. The acquisition was for \$4.0 million, and the Company funded the acquisition utilizing cash from the balance sheet. The properties were leased to Infinity, a related party operator. The rent for the properties did not change (\$400 thousand per year) and the properties will be added to the Tennessee Master Lease 1.

On February 8, 2024, the BVI Company issued additional Series D Bonds with a par value of NIS 100.0 million and raised a gross amount of \$26.7 million (NIS 98.2 million). The Bonds were issued at a price of 106.3%; which equates to a coupon of approximately 7.7%.

On February 20, 2024 the Company entered into a new, replacement master lease for the properties included in the Indiana acquisition completed in August of 2023. The tenants remain a group affiliated with two of the Company's directors, Moishe Gubin and Michael Blisko. The new master lease has an initial term of ten years and is subject to 2 five-year extensions. The initial annual base rent for the properties is \$14.5 million dollars and is subject to annual increases of 3%. In connection with the new master lease, the existing purchase option held by the tenant, which was granted by the prior owner of the properties, of \$127.0 million was terminated. Consideration for the termination of the purchase option and inducement for entering into the new, replacement master lease was \$18.0 million paid to the tenants. The \$18.0 million payment was funded by cash and the proceeds from the additional Series D Bond issuance in February 2024.

On March 25, 2024, the Company entered into a purchase agreement for a property comprised of a 68-bed skilled nursing facility and 10 bed assisted living facility near Georgetown, Indiana. The Company closed on the property May 31, 2024, for \$5.83 million in an all cash transaction. The facility was leased to Infinity, a related party operator. On June 1st, 2024, the facility was added to the IN Master Lease in the second amendment to the master lease.

On April 1, 2024, the Company renewed the IN Master Lease (original expiration date July 31, 2025) for 10 years with two 5 years options and added to the lease one more entity that was not part of the original lease. The base rent for the first year is \$15.5 million with 3% annual escalations. On June 1, 2024, a second amendment was filed with this Master Lease to include the new property purchased in Georgetown, Indiana.

On April 30, 2024, the company sold a property 107 South Lincoln Street to The Village of Smithton, a municipality in Illinois and paid off the existing mortgage. The building was sold to the municipality for \$1. The Company paid \$1.2 million in related debt and closing fees for this transaction.

On July 12, 2024, the Company filed a Registration Statement on Form S-3 with the Securities and Exchange Commission ("SEC"). On August 1, 2024, the SEC declared the Registration Statement effective. In connection with the Registration Statement the Company established an at-the-market equity program (the "ATM Program"). The ATM Program will allow the Company to issue and sell to the public from time to time, at the Company's discretion, newly issued shares of common stock. The ATM Program is expected to provide the Company with additional financing flexibility and intends to use the net proceeds from the ATM Program to increase stock liquidity and facilitate growth.

On August 5, 2024, the Company issued 145.6 million NIS in Series A Bonds on the Tel Aviv stock exchange ("TASE"), which is approximately \$38.1 million. The bonds are unsecured, were issued at par and have a fixed interest

rate of 6.97%. Repayment of the bond principal, at 6% of the principal, will be paid in the years 2024 and 2025, with the remaining 88% due in 2026. Interest payments will be due concurrent with the principal payments on September 30th of the years 2024, 2025 and 2026. In addition, the investors in Series D bond were offered to exchange their holdings with certificates of Series A bonds at a conversion rate of 1.069964 bond A for each certificate of bond D. As of September 30, 2024, 47.2 million NIS (\$12.7 million USD) Series D bonds have been exchanged for 50.6 million NIS (\$13.6 million) Series A bonds.

On August 30, 2024, the Company completed the acquisition for two skilled nursing facilities with 254 licensed beds near San Antonio, TX. The acquisition was for \$15.25 million. The Company funded the acquisition utilizing cash from the balance sheet. The facilities are leased to the Tide Health Group, a 3rd party operator. The properties are leased in the Texas Master Lease 2, which includes an annual base rent of \$1.5 million dollars with 3% annual rent increases and an initial term of 10 years with two options of 5 year extensions.

On September 25, 2024, the Company completed the acquisition of a property comprised of an 83-bed skilled nursing facility and 23 bed assisted living facility near Nashville, Tennessee. The acquisition was for \$6.7 million and the Company funded the acquisition by assuming \$2.8 million of existing debt on the facilities, \$3.1 million was paid by the Company issuing common stock to the seller, and another \$0.8 million by transferring other assets to the seller. The property was leased to Infinity, a related party operator. The property annual rent is \$670 thousand dollars and the property will be added to the Tennessee Master Lease 1.

As of the date of this report, none of the Company's tenants are delinquent on the payment of rent, and there have been no requests to amend the terms of their respective leases or to reduce current or future lease payments.

Related Party Tenants

As a landlord, the Company does not control the operations of its tenants, including related party tenants, and is not able to cause its tenants to take any specific actions to address trends in occupancy at the facilities operated by its tenants, other than to monitor occupancy and income of its tenants, discuss trends in occupancy with tenants and possible responses, and, in the event of a default, exercise its rights as a landlord. However, Moishe Gubin, our Chairman and Chief Executive Officer, and Michael Blisko, one of our directors, as the controlling members of 68 of our tenants and related operators, have the ability to obtain information regarding these tenants and related operators and cause the tenants and operators to take actions, including with respect to occupancy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Operating Results

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023:

	Three Months Ended		Increase / (Decrease)	Percentage Difference
	September 30,			
<i>(dollars in thousands except per share data)</i>	2024	2023		
Revenues:				
Rental revenues	\$ 29,464	\$ 25,771	\$ 3,693	14.3%
Expenses:				
Depreciation	7,134	6,534	600	9.2%
Amortization	1,207	757	450	59.4%
General and administrative expenses	1,428	1,560	(132)	(8.5)%
Property and other taxes	3,481	3,717	(236)	(6.3)%

Facility rent expenses	184	147	37	25.2%
Total Expenses	13,434	12,715	719	5.7%
Interest expense, net	8,590	7,865	725	9.2%
Amortization of interest expense	165	148	17	11.5%
Mortgage insurance premium	374	420	(46)	(11.0)%
Total Interest Expenses	9,129	8,433	696	7.6%
Other Income (Loss)				
Foreign currency transaction gain	-	81	(81)	100%
Net income	6,901	4,704	2,197	46.7%
Net income attributable to non-controlling interest	(5,957)	(4,115)	(1,842)	(44.8)%
Net income attributable to common stockholders	944	589	355	60.3%
Basic and diluted income per common share	\$ 0.14	\$ 0.09	\$ 0.05	55.5%

Rental revenues: The increase in rental revenues of \$3.7 million or 14.3% is due to higher income from the purchase of additional properties and lease renewals.

Depreciation and Amortization: The increase in depreciation and amortization of \$1.1 million or 14.4% is primarily due to new properties and lease rights purchased since September 30, 2023 offset by lower depreciation from fully depreciated assets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations (continued)

Interest expense, net: The increase in interest expense of \$725 thousand or 9.2% is primarily due to an increase in the additional interest on a new loan from Popular Bank, the Series A Bond issuance and a Series D Bonds issuance that occurred since 3Q 2023.

Net Income: The increase in net income from \$4.7 million during the third quarter of 2023, to \$6.9 million income during the third quarter of 2024 is primarily a result of higher rental income in the third quarter of 2024 offset by higher depreciation and amortization expenses, higher interest expense, lower general and administrative expenses, and lower property taxes.

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023:

(dollars in thousands)	Nine Months Ended September 30,		Increase / (Decrease)	Percentage Difference
	2024	2023		
Revenues:				
Rental revenues	\$ 86,570	\$ 74,325	\$ 12,245	16.5%
Expenses:				
Depreciation	21,348	18,995	2,353	12.4%
Amortization	3,318	2,271	1,047	46.1%
Loss on real estate investment impairment	-	2,451	(2,451)	(100.0)%
General and administrative expenses	5,064	3,974	1,090	27.4%
Property and other taxes	10,650	11,152	(502)	(4.5)%

Facility rent expenses	577	419	158	37.7%
Total Expenses	40,957	39,262	1,695	4.3%
Interest expense, net	24,028	17,983	6,045	33.6%
Amortization of interest expense	488	401	87	21.7%
Mortgage insurance premium	1,164	1,253	(89)	(7.1)%
Total Interest Expenses	25,680	19,637	6,042	30.8%
Other (expense) income				
Miscellaneous expense	-	(982)	982	(100.0)%
Foreign currency transaction gain	-	81	(81)	(100.0)%
Net income	19,933	14,525	5,408	37.2%
Net income attributable to non-controlling interest	(17,305)	(12,743)	(4,562)	(35.8)%
Net income attributable to common stockholders	2,628	1,782	846	32.2%
Basic and diluted income per common share	\$ 0.40	\$ 0.28	\$ 0.12	42.9%

Rental revenues: The increase in rental revenue of \$12.2 million or 16.5% is due to renegotiation of certain leases, acquisition of new properties and renewal of leases.

Depreciation and Amortization: The increase in depreciation and amortization of \$3.4 million or 16.0% is primarily purchases of new properties and lease rights offset by lower depreciation from fully depreciated assets.

Loss on real estate investment impairment: In February 2023, one facility under one of our southern Illinois master leases was closed. The closure was made at the request of the tenant and was mainly for efficiency reasons. This facility was leased under a master lease with two other facilities. The closure did not result in any reduction in the aggregate rent payable under the master lease, which was paid without interruption. However, the closure did result in a write off of the remaining book value of the property and an impairment loss on the P&L. On April 30, 2024, the company sold the property to The Village of Smithton, a municipality in Illinois, and paid off the outstanding mortgage. The sale of the property did not result in any material P&L impact.

General and administrative: The increase in general and administrative of \$1.1 million or 27.4% is primarily a result of higher insurance, higher corporate salaries and other expenses.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations (continued)

Interest expense, net: The increase in interest expense of \$6.0 million or 33.6% is primarily related to additional interest on a new loan from Popular Bank, a Series A bond issuance and a Series D bond issuance that occurred since the third quarter of 2023

Miscellaneous Expense: The decrease in miscellaneous expense of \$1.0 million is the result of a fee paid to an investment banking firm in connection with the cancellation of an agreement with respect to a proposed financing transaction.

Net Income: The increase in net income to \$19.9 million in 2024 from \$14.5 million in same period last year (37.2% increase) is primarily a result of higher rental income in 2024 offset by higher interest expenses, higher depreciation and amortization expenses, higher general and administrative expenses, lower property taxes and the absence of a real estate impairment loss.

Liquidity and Capital Resources

To qualify as a REIT for federal income tax purposes, we are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, to our stockholders on an annual basis. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly dividends to common stockholders from cash flow from operating activities. All such dividends are at the discretion of our board of directors.

As of September 30, 2024, we had cash and cash equivalents and restricted cash and equivalents of \$53.2 million. We also had the ability to offer an additional \$98 million in Series A, \$144 million in Series C Bonds and an additional \$108 million in Series D Bonds subject to compliance with covenants and market conditions.

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs. Our primary sources of cash include operating cash flows, stock sales and borrowings. Our primary uses of cash include funding acquisitions and investments consistent with our investment strategy, repaying principal and interest on any outstanding borrowings, making distributions to our equity holders, funding our operations and paying accrued expenses.

Our long-term liquidity needs consist primarily of funds necessary to pay for the costs of acquiring additional healthcare properties and principal and interest payments on our debt. We expect to meet our long-term liquidity requirements through various sources of capital, including future equity issuances or debt offerings, net cash provided by operations, long-term mortgage indebtedness and other secured and unsecured borrowings.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Liquidity and Capital Resources (continued)

We may utilize various types of debt to finance a portion of our acquisition activities, including long-term, fixed-rate mortgage loans, variable-rate term loans and secured revolving lines of credit. As of September 30, 2024, on a condensed consolidated basis, we had total indebtedness of approximately \$584.5 million, consisting of \$264.1 million in HUD guaranteed debt, \$155.7 million in Series A Bonds, Series C Bonds, and Series D gross bonds outstanding and \$164.7 million in commercial mortgages loans. Under our bonds and our commercial mortgages loans, we are subject to continuing covenants, and future indebtedness that we may incur may contain similar provisions. In the event of a default, the lenders could accelerate the timing of payments under the debt obligations, and we may be required to repay such debt with capital from other sources, which may not be available on attractive terms, or at all, which would have a material adverse effect on our liquidity, financial condition, results of operations and ability to make distributions to our stockholders.

Through 2028 there are five balloon payment obligations consisting of a payment of \$46.5 million due under Series A Bonds in 2026, \$51.4 million due under the Series C Bonds in 2026, a payment of \$47.2 million due under the Series D Bonds in 2026, a payment of \$86.1 million due under our commercial bank mortgage loan facility due in 2027, and a payment of \$60.7 million due under our commercial bank mortgage loan facility due in 2028. We may also obtain additional financing that contains balloon payment obligations. These types of obligations may materially adversely affect us, including our cash flows, financial condition and ability to make distributions.

The Company believes that its overall level of indebtedness is appropriate for the Company's business in light of its cash flow from operations and value of its properties and is generally typical for owners of multiple healthcare properties. The Company expects to generate sufficient positive cash flow from operations to meet its ongoing debt service obligations and the distribution requirements for maintaining REIT status.

Cash Flows

The following table presents selected data from our condensed consolidated statements of cash flows for the periods presented:

	Nine Months Ended	
	September 30,	
	2024	2023
<i>(dollars in thousands)</i>		
Net cash provided by operating activities	\$ 34,525	\$ 42,006
Net cash used in investing activities	(43,010)	(113,500)
Net cash provided by financing activities	23,976	60,860
Net increase in cash and cash equivalents and restricted cash and cash equivalents	15,491	(10,684)
Cash and cash equivalents, and restricted cash and cash equivalents beginning of period	37,758	45,704
Cash and cash equivalents and restricted cash and cash equivalents, end of period	<u>\$ 53,249</u>	<u>\$ 35,020</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Cash Flows (continued)

Net cash provided by operating activities was \$34.5 million for the nine months ended September 30, 2024 and primarily consisted of net earnings of \$19.9 million adjusted by depreciation and amortization of \$24.7 million offset by an increase in Accounts Receivable of \$2.8 million, an increase in straight-line receivables of \$3.0 million and a decrease in other accrued liabilities of \$6.1 million. Net cash provided by operating activities was \$42.0 million for the nine months ended September 30, 2023 and primarily consisted of net earnings of \$14.5 million adjusted by depreciation and amortization of \$21.3 million, a loss on real estate impairment of \$2.5 million, and an increase in accounts payable and other accrued liabilities of \$6.5 million.

Cash used in investing activities for the nine months ended September 30, 2024 was comprised of \$43.0 million for the acquisition of the rights to the Indiana Master Lease 2 as well as 6 new properties in Indiana, Tennessee and Texas. This was offset by \$0.8 million in principal payments on notes receivable. Cash used in investing activities for the nine months ended September 30, 2023 was comprised of the acquisition of 25 new facilities in Indiana and Kentucky for \$108.1 million. There was also an increase of \$6.5 million in note receivables, which was offset by \$1.0 million of principal payments on notes receivable.

Cash provided by financing activities for the nine months ended September 30, 2024 was comprised of proceeds from the issuance of Series A Bonds \$37.1 million, Series D Bonds \$25.7 million and proceeds of the ATM sales of \$2.4 million. These increases were offset by non-controlling interest distributions of \$17.2 million, bond principal repayments of \$10.5 million, repayments of mortgage debt \$10.1 million, dividend payments of \$2.5 million and stock buybacks of \$0.9 million. Cash provided by financing activities for the nine months ended September 30, 2023 were primarily comprised of a private placement of Series C Bonds which netted \$10.9 million, issuance of Series D Bonds which netted \$22.4 million, a private placement of Series D Bonds \$19.1 million, a new HUD loan of \$3.2 million and a commercial bank facility of \$66 million. These amounts were offset by \$15.3 million in principal debt payments, dividends paid to common shareholders of \$2.1 million, a \$15.2 million distribution to the non-controlling interest holders and repayment of non-controlling interest redemption liability of \$15.8 million.

Indebtedness

Mortgage Loans Guaranteed by HUD

As of September 30, 2024, we had non-recourse mortgage loans of \$264.1 million from third party lenders that were guaranteed by HUD.

Each loan is secured by first mortgages on certain specified properties, interests in the leases for these properties and second liens on the operator's assets. In the event of default on any single loan, the loan agreement provides that the applicable lender may require the tenants for the property securing the loan to make all rental payments directly to the lender. In exchange for the HUD guarantee, we pay HUD, on an annual basis, 0.65% of the principal balance of each loan as mortgage insurance premium, in addition to the interest rate denominated in each loan agreement. As a result, the overall average interest rate paid with respect to the HUD guaranteed loans as of September 30, 2024, was 3.91% per annum (including the mortgage insurance payments). The loans have an average maturity of 25.0 years.

Commercial Bank Term Loan

On March 21, 2022, the Company obtained a mortgage loan facility with a commercial bank pursuant to which the Company borrowed approximately \$105 million. The facility provides for monthly payments of principal and interest based on a 20-year amortization with a balloon payment due in March 2027. The interest rate is based on the one-month SOFR plus a margin of 3.5% and a floor of 4% (as of September 30, 2024 the interest rate was 8.42%). As of September 30, 2024 and December 31, 2023, total amounts outstanding were \$95.1 million and \$98.8 million, respectively. This facility loan is collateralized by 21 properties owned by the Company. The loan proceeds were used to repay the Series B Bonds and prepay commercial loans not secured by HUD guaranteed mortgages.

On August 25, 2023, the Company closed a mortgage loan facility with a commercial bank pursuant to which the Company borrowed approximately \$66 million. The facility is an interest only facility for the first 12 months and provides for monthly payments of principal based on a 20-year amortization starting in the second year with a balloon payment due in August 2028. The rate is based on the one-month Secured Overnight Financing Rate ("SOFR") plus a margin of 3.5% and a floor of 4% (as of September 30, 2024, the rate was 8.42%). As of September 30, 2024 and December 31, 2023, total amounts outstanding were \$65.3 million and \$66.0 million, respectively. This facility loan is collateralized by and used for the acquisition of 19 properties (24 facilities).

The loan agreement covenants consist of (i) a covenant that the ratio of the Company's indebtedness to its EBITDA cannot exceed 8.0 to 1, (ii) a covenant that the ratio of the Company's net operating income to its debt service before dividend distribution is at least 1.20 to 1.00 for each fiscal quarter as measured pursuant to the terms of the loan agreement, (iii) a covenant that the ratio of the Company's net operating income to its debt service after dividend distribution is at least 1.05 to 1.00 for each fiscal quarter as measured pursuant to the terms of the loan agreement, and (iii) a covenant that the Company's GAAP equity is at least \$20.0 million. As of September 30, 2024, the Company was in compliance with the loan covenants.

On September 25th, 2024, The Company assumed a \$2.8 million dollar mortgage as part of the purchase of the Mabry property in Gainsborough, Tennessee. Principal and interest are due in monthly payments starting in October 2024. The loan interest rate is fixed at 6.25% and the balance is due on April 23rd, 2026.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Indebtedness (continued)

Outstanding Bond Debt

The Company has issued Series A Bonds directly and Series C Bonds and Series D Bonds through the BVI company, a wholly owned subsidiary.

Series A Bonds

In August 2024, The Company completed an initial offering of Series A Bonds with a par value of NIS 145.6 million (\$37.1 million). The Series A Bonds were issued at par. In addition, the investors in Series D bond were offered to exchange their holdings with certificates of Series A bonds at a conversion rate of 1.069964 bond A for each certificate of bond D. The Series A Bonds interest rate is 6.97%.

As of September 30, 2024, the outstanding principal amount of the Series A Bonds was NIS 184.4 million (\$49.7 million).

The Series A Bonds are traded on the Tel Aviv Stock Exchange (TASE).

Series C Bonds

In July 2021, the BVI Company completed an initial offering of Series C Bonds with a par value of NIS 208.0 million (\$64.7 million). The Series C Bonds were issued at par. During February 2023, the BVI Company issued additional Series C Bonds in the face amount of NIS 40.0 million (\$11.2 million) and raised a net amount of NIS 38.1 million (\$10.7 million). These Series C Bonds were issued at a price of 95.25%. The Series C Bonds interest rate is 5.7% at September 30, 2024.

As of September 30, 2024, the outstanding principal amount of the Series C Bonds was NIS 205.4 million (\$55.4 million).

The Series C Bonds are traded on the Tel Aviv Stock Exchange (TASE).

Series D Bonds

On June 19, 2023, the BVI Company completed an initial offering of Series D Bonds with a par value of NIS 82.9 million (\$22.9 million). The Series D Bonds were issued at par and the interest rate is 9.1%. During July 2023, the BVI Company issued additional Series D Bonds with a par value of NIS 70.0 million and raised a gross amount of \$19.2 million (NIS 69.8 million). The Bonds were issued at a price of 99.7%. On February 8, 2024, the BVI Company issued additional Series D Bonds with a par value of NIS 100.0 million and raised a net amount of \$25.7 million (NIS 98.2 million). The Bonds were issued at a price of 106.3%.

As of September 30, 2024, the outstanding principal amount of the Series D Bonds was NIS 187.8 million (\$50.6 million).

The Series D Bonds are traded on the Tel Aviv Stock Exchange (TASE).

Summary of fixed and variable loans

	September 30, 2024	December 31, 2023
	(Amounts in \$000s)	
Fixed rate loans	\$ 422,591	\$ 374,335
Variable rate loans	161,917	164,810
Gross Notes Payable and other Debt	<u>\$ 584,508</u>	<u>\$ 539,145</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Funds From Operations ("FFO")

The Company believes that funds from operations (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations (“AFFO”) are important non-GAAP supplemental measures of our operating performance. Because the historical cost accounting convention used for real estate assets requires straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. FFO is defined as net income, computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization. AFFO is defined as FFO excluding the impact of straight-line rent, above-/below-market leases, non-cash compensation and certain non-recurring items. We believe that the use of FFO, combined with the required GAAP presentations, improves the understanding of our operating results among investors and makes comparisons of operating results among REITs more meaningful. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding the applicable items listed above, FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies.

While FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income as defined by GAAP and should not be considered an alternative to those measures in evaluating our liquidity or operating performance. FFO and AFFO also do not consider the costs associated with capital expenditures related to our real estate assets nor do they purport to be indicative of cash available to fund our future cash requirements. Further, our computation of FFO and AFFO may not be comparable to FFO and AFFO reported by other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define AFFO differently than we do.

The following table reconciles our calculations of FFO and AFFO for the nine and three months ended September 30, 2024 and 2023, to net income the most directly comparable GAAP financial measure, for the same periods:

FFO and AFFO

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
<i>(dollars in \$1,000s)</i>				
Net income	\$ 19,933	\$ 14,525	\$ 6,901	\$ 4,704
Depreciation and amortization	24,666	21,266	8,341	7,291
Funds from Operations	44,599	35,791	15,242	11,995
Adjustments to FFO:				
Straight-line rent	(3,001)	(1,232)	(967)	(445)
Foreign currency transaction gain	-	(81)	-	(81)
Loss on real estate investment impairment	-	2,451	-	-
Contract cancellation expense for proposed financing*	-	1,000	-	-
Funds from Operations, as Adjusted	\$ 41,598	\$ 37,929	\$ 14,275	\$ 11,469

* The Company incurred a non-recurring expense of \$1.0 million in the second quarter of 2023 in connection the cancellation of a contract with an investment banking firm related to a proposed financing.

Subsequent Events

On October 8, 2024, the Company entered into a Purchase and Sale Agreement with an unaffiliated seller with respect to eight healthcare facilities located in Missouri. The purchase price for the facilities is \$87,500,000, payable at the closing. The facilities are currently leased under a master lease agreement to a group of third-party tenants. Under the master lease, the tenants currently pay annual rent on a triple net basis. The eight facilities are comprised of 1,111 licensed beds. The Company plans to purchase the facilities utilizing the Company's current working capital and funds provided by a third-party lender. The Company anticipates closing the acquisition before year-end; however, we can give no assurance that the closing will occur within this timeframe, or at all. The potential acquisition of the facilities is subject to substantial conditions to closing.

On October 11, 2024 the Company acquired an 86-bed skilled nursing facility in Indianapolis, Indiana. The acquisition was for \$6.0 million and the Company funded the acquisition utilizing cash from its balance sheet. The facility was added to an existing master lease with Infinity of Indiana.

On October 14, 2024, the BVI Company issued additional Series C debentures with a par value of NIS 62.0 million (\$16.5 million) and raised a gross amount of NIS 61.6 million (\$16.4 million). The debentures were issued at a price of 99.3% to par.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q have been prepared in accordance with GAAP for interim financial information set forth in the Accounting Standards Codification, as published by the Financial Accounting Standards Board. GAAP requires us to make estimates and assumptions regarding future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We base these estimates on our experience and assumptions we believe to be reasonable under the circumstances. However, if our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, we may have applied a different accounting treatment, resulting in a different presentation of our financial statements. We periodically reevaluate our estimates and assumptions, and in the event they prove to be different from actual results, we make adjustments in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. Please refer to "Critical Accounting Policies and Estimates" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our 2023 Annual Report on 10-K filed on March 19, 2024 for further information regarding the critical accounting policies that affect our more significant estimates and judgments used in the preparation of our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. There have been no material changes in such critical accounting policies during the nine months ended September 30, 2024.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business and investment objectives, we expect that the primary market risk to which we will be exposed is interest rate risk.

We may be exposed to the effects of interest rate changes primarily as a result of long-term debt used to acquire properties. As of September 30, 2024, we had \$49.7 million outstanding under our Series A Bonds, which bear a fixed rate of 6.97%, \$55.4 million outstanding under our Series C Bonds, which bear interest at a fixed rate of 5.7% per annum, \$50.6 million outstanding under our Series D Bonds, which bear interest at a fixed rate of 9.1% per annum, and \$428.8 million in notes, of which \$264.1 million are HUD guaranteed debt at a fixed interest rate of 3.91%, \$2.8 million is a mortgage assumed in the Mabry purchase which carries an interest rate of 6.25% and \$161.9 million (29.4% of total debt) are floating rate debt, which bears interest at a variable rate equal to one-month SOFR plus a margin of 3.5% and a floor of 4% (as of September 30, 2024 the rate was 8.42%). On September 30, 2024, the one-month SOFR was 4.96%. Assuming no increase in the amount of our variable interest rate debt, if one-month SOFR increased 100 basis points, our annual cash flow would decrease by approximately \$1.6 million. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall

borrowing costs. To achieve our objectives, we may borrow at fixed rates or variable rates. We also may enter into derivative financial instruments such as interest rate swaps and caps in order to mitigate our interest rate risk on a related financial instrument.

Item 3. Quantitative and Qualitative Disclosures about Market Risks (continued)

In addition to changes in interest rates, the value of our future investments is subject to fluctuations based on changes in local and regional economic conditions, changes in currency rates between the Israeli Shekel and the U.S. Dollar and changes in the creditworthiness of tenants/operators, which may affect our ability to refinance our debt if necessary.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and regulations and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2024, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of September 30, 2024.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any material legal proceedings, that are not covered by insurance and expected to be resolved within policy limits, other than the following:

In March 2020, Joseph Schwartz, Rosie Schwartz and certain companies owned by them filed a complaint in the U.S. District Court for the Northern District of Illinois against Moishe Gubin, Michael Blisko, the Predecessor Company and 21 of its subsidiaries, as well as the operators of 17 of the facilities operated at our properties. The complaint was related to the Predecessor Company’s acquisition of 16 properties located in Arkansas and Kentucky that were completed between May 2018 and April 2019 and the attempt to purchase an additional 5 properties located in

Massachusetts. The complaint was dismissed by the court in 2020 for lack of subject matter jurisdiction. The plaintiffs did not file an appeal with respect to this action, and the time for an appeal has expired.

In August 2020, Joseph Schwartz, Rosie Schwartz and several companies controlled by them filed a second complaint in the Circuit Court in Pulaski County, Arkansas. The second complaint had nearly identical claims as the federal case, but was limited to matters related to the Predecessor Company's acquisition of properties located in Arkansas. The sellers, which were affiliates of Skyline Health Care, had encountered financial difficulties and requested the Predecessor Company to acquire these properties. The defendants have filed an answer denying the plaintiffs' claims and asserting counterclaims based on breach of contract. This case has been dismissed without prejudice.

In January 2021, Joseph Schwartz, Rosie Schwartz and certain companies owned by them filed a third complaint in Illinois state court in Cook County, Illinois, which has nearly identical claims to the initial federal case but was limited to claims related to the Kentucky and Massachusetts properties. The complaint has not been properly served on any of the defendants, and, accordingly, the defendants did not respond to the complaint. Instead, the defendants filed a motion to quash service of process. On January 11, 2023, the Cook County Circuit Court entered an order granting such motion, quashing service of process on all defendants. In March 2023, the plaintiffs filed a new complaint and again attempted to serve it on the defendants. It is the defendants' position that service was (once again, potentially) defective and sought a dismissal of the matter for want of prosecution by Joseph Schwartz, Rosie Schwartz and certain companies owned by them. The dismissal was granted, but has been appealed to the Illinois Appellate Court, and now has been dismissed.

In April of 2024 . Joseph Schwartz, Rosie Schwartz and several companies controlled by them filed a third complaint in the Circuit Court in Pulaski County, Arkansas. This third complaint had nearly identical claims as the federal case and the Illinois state court matter.

In each of these complaints, the plaintiffs asserted claims for fraud, breach of contract and rescission arising out of the defendants' alleged failure to perform certain post-closing obligations under the purchase contracts. We have potential direct exposure for these claims because the subsidiaries of the Predecessor Company that were named as defendants are now subsidiaries of the Operating Partnership. Additionally, the Operating Partnership is potentially liable for the claims made against Moishe Gubin, Michael Blisko and the Predecessor Company pursuant to the provisions of the contribution agreement, under which the Operating Partnership assumed all of the liabilities of the Predecessor Company and agreed to indemnify the Predecessor Company and its affiliates for such liabilities. We and the named defendants believe that the claims set forth in the complaints are without merit. The named defendants intend to vigorously defend the litigation and to assert counterclaims against the plaintiffs based on their failure to fulfil their obligations under the purchase contracts, interim management agreement, and operations transfer agreements. We believe this matter will be resolved without a material adverse effect to the Company.

As noted above, the March 2020 and January 2021 and April 2024 complaints also related to the Predecessor Company's planned acquisition of five properties located in Massachusetts. A subsidiary of the Predecessor Company purchased loans related to these properties in 2018 for a price of \$7.74 million with the expectation that the subsidiaries would acquire title to the properties and the loans would be retired. The subsidiaries subsequently advanced \$3.1 million under the loans to satisfy other liabilities related to the properties. The planned acquisition/settlement with the sellers/owners and borrowers was not consummated because the underlying tenants of the properties surrendered their licenses to operate healthcare facilities on these properties.

The Predecessor Company intends to institute legal proceedings to collect the outstanding amount of these loans and to assert related claims against the sellers and their principals for the unpaid principal balances as well as protective advances and collection costs. In connection with enforcing their rights, in July 2022, the Company foreclosed, and (as lender) sold four of the five properties at auction for the total amount of \$4.4 million. In December 2022, the Company took title on the fifth property with an estimated fair value of \$1.2 million.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No redemptions or sales of unregistered securities occurred in the first 9 months of 2024.

Item 5. Other Information

None

Item 6. Exhibits

<u>Exhibit No.</u>	
3.1	<u>Articles of Amendment and Restatement of Strawberry Fields REIT, Inc., incorporated herein by reference to Exhibit 3.1 to the Registration Statement on Form 10 filed with the Securities and Exchange Commission as of July 12, 2022.</u>
3.2	<u>Amended and Restated Bylaws of Strawberry Fields REIT, Inc., incorporated herein by reference to Exhibit to the Registration Statement on Form 10 filed with the Securities and Exchange Commission as of July 12, 2022.</u>
4.1	<u>Description of Capital Stock incorporated herein by reference to Exhibit 4.1 to the Form 10-K filed with the Securities and Exchange Commission as of March 19, 2024.</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Strawberry Fields REIT, Inc.*</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Strawberry Fields REIT, Inc.*</u>
32.1	<u>Section 1350 Certification of the Chief Executive Officer of Strawberry Fields REIT, Inc.**</u>
32.2	<u>Section 1350 Certification of the Chief Financial Officer of Strawberry Fields REIT, Inc.**</u>
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline XBRL: (i) condensed consolidated Balance Sheets, (ii) condensed consolidated Statements of Income and Comprehensive Income, (iii) condensed consolidated Statements of Changes in Equity, (iv) condensed consolidated Statements of Cash Flows, and (v) Notes to condensed consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101).

* Exhibits that are filed herewith.

** Exhibits that are furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Strawberry Fields REIT, Inc.

Date: November 8, 2024

By: /s/ Moishe Gubin

Name: Moishe Gubin

Title: Chief Executive Officer and Chairman

Date: November 8, 2024

By: /s/ Greg Flamion

Name: Greg Flamion

Title: Chief Financial Officer

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
REQUIRED BY RULE 13A-14(A)/15D-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I certify that:

1. I have reviewed this report on Form 10-Q of Strawberry Fields REIT, Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within that entity, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the Audit Committee of the Company’s Board of Directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Moishe Gubin

Moishe Gubin
Principal Executive Officer
Date: November 8, 2024

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
REQUIRED BY RULE 13A-14(A)/15D-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I certify that:

1. I have reviewed this report on Form 10-Q of Strawberry Fields REIT, Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within that entity, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the Audit Committee of the Company’s Board of Directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Greg Flamion

Greg Flamion
Principal Financial Officer
Date: November 8, 2024

EXHIBIT 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Strawberry Fields REIT, Inc. (the “Company”) on Form 10-Q for the three and nine months ended September 30, 2024 as filed with the Securities and Exchange Commission (the “Report”), I, as the Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Moishe Gubin

Moishe Gubin
Principal Executive Officer
Date: November 8, 2024

EXHIBIT 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Strawberry Fields REIT, Inc. (the “Company”) on Form 10-Q for the three and nine months ended September 30, 2024 as filed with the Securities and Exchange Commission (the “Report”), I, as the Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Greg Flamion

Greg Flamion
Principal Financial Officer
Date: November 8, 2024
