INTERCURE

Management's Discussion and Analysis of Intercure

This Interim Management's Discussion and Analysis ("MD&A") is dated May 17, 2021 and provides an analysis of the financial operating results for the three months ended March 31, 2021. In this MD&A, references to the "Company", "Intercure," and "we," "us," and "our" are intended to refer to the business and operations of Intercure Ltd. and its subsidiaries, unless the context clearly indicates otherwise. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements and the accompanying notes for the three months ended March 31, 2021 (the "Interim Financial Statements") and the audited consolidated financial statements and the accompanying notes for the years ended December 31, 2020 and 2019. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, unless otherwise noted, are expressed in thousands on NIS, except for data otherwise noted that may be presented in CAD. The CAD/NIS exchange rate used, unless noted otherwise, was 2.70 NIS for 1 CAD.

Non-IFRS Measures

In this MD&A, we use certain non-IFRS financial measures to measure, compare and explain the operating results and financial performance of Intercure. These measures are commonly used by companies operating in the cannabis industry as useful metrics for measuring performance. However, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other publicly traded entities. These measures should be considered as supplemental in nature and not as a substitute for related financial information prepared in accordance with IFRS. Intercure defines such financial measures as follows: EBITDA means net income (loss) before interest, taxes, depreciation and amortization, adjusted for changes in the fair value of inventory, share-based payment expense, impairment losses (and gains) on financial assets, non-controlling interest and other expenses (or income); "Run Rate Revenue" means revenue, annualized irrespective of the length of the applicable period.

Non-IFRS Measures

Forward-Looking Statements

This MD&A may contain forward-looking information within the meaning of applicable securities legislation, which reflects Intercure's current expectations regarding future events. The words "will", "expects", "intends" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. Forwardlooking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Intercure's control. which could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to: changes in general economic, business and political conditions, changes in applicable laws, the Israeli regulatory landscapes and enforcement related to cannabis, changes in public opinion and perception of the cannabis industry, reliance on the expertise and judgment of senior management, as well as the factors discussed under the heading "Risk Factors" in Subversive Acquisition LP's final long form prospectus dated March 15, 2021 (the "Prospectus"), which is available on SEDAR at www.sedar.com. Intercure undertakes no obligation to update such forwardlooking information, whether as a result of new information, future events or otherwise, except as expressly required by applicable law.

Cannabis Sector Q1 Highlights

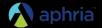
- Record revenue of NIS 33.1 million (CAD 12.2 million), 8 times greater than Q1 2020 and an increase of more than 22% compared to Q4 2020;
- EBITDA for the first quarter was NIS 9.5 million (CAD 3.5 million), and NIS 10.1 million (CAD 3.7 million) for cannabis sector. This represents an annual run rate of over NIS 40 million (CAD 15 million), a significant increase year over year, driven by revenue growth, improvement in gross profit and operating profit;
- Positive cash flow from operations for the third consecutive quarter of NIS 8 million (CAD 3 million);
- NIS 40 million cash (CAD 15 million), not including NIS 182 million (CAD 68 million) raised by the SPAC prior to the merger;
- Revenue growth expected to continue in Q2 and throughout 2021;

SPAC Transaction

- Successfully completed the SPAC merger with Subversive Acquisition LP
- Company's shares started trading on dual listed on the Toronto Stock Exchange (TSX) under the Symbol (TSX:INCR:U) and Tel Aviv Stock Exchange (TASE: INCR)
- Capital raise of NIS 182 million (CAD 68 million) highest capital funding made by an Israeli medical cannabis company
- On April 20th InterCure applied to list on the Nasdaq and expects to begin trading by the end of Q2.

Cannabis Sector Q1 Business Highlights

- · Continued market share growth due to solid demand for Canndoc's branded products and the expansion of 'GIVOL' [™] pharmacy chain;
- Successful launch of premium products under the brand: CANNDOC Cali". First family of GMP products cultivated and manufactured in Canndoc's advanced southern facility;
- 2 fully operational GIVOL[®] medical cannabis pharmacies during the quarter;
- Acquisition of an additional four new pharmacies, increasing the GIVOL™ pharmacy chain to 10 locations across Israel to be fully activated during 2021;
- Active negotiation to acquire additional locations;
- California's leading cannabis brand Cookies" sign MOU to expand their brand into Europe through InteCure partnership:
- signed a Letter of Intent with Cann Pharmaceutical Ltd. to acquire Better Holdings, a pioneering medical cannabis operator in Israel and Australia.
- Revenue growth expected to continue in Q2 and throughout 2021;



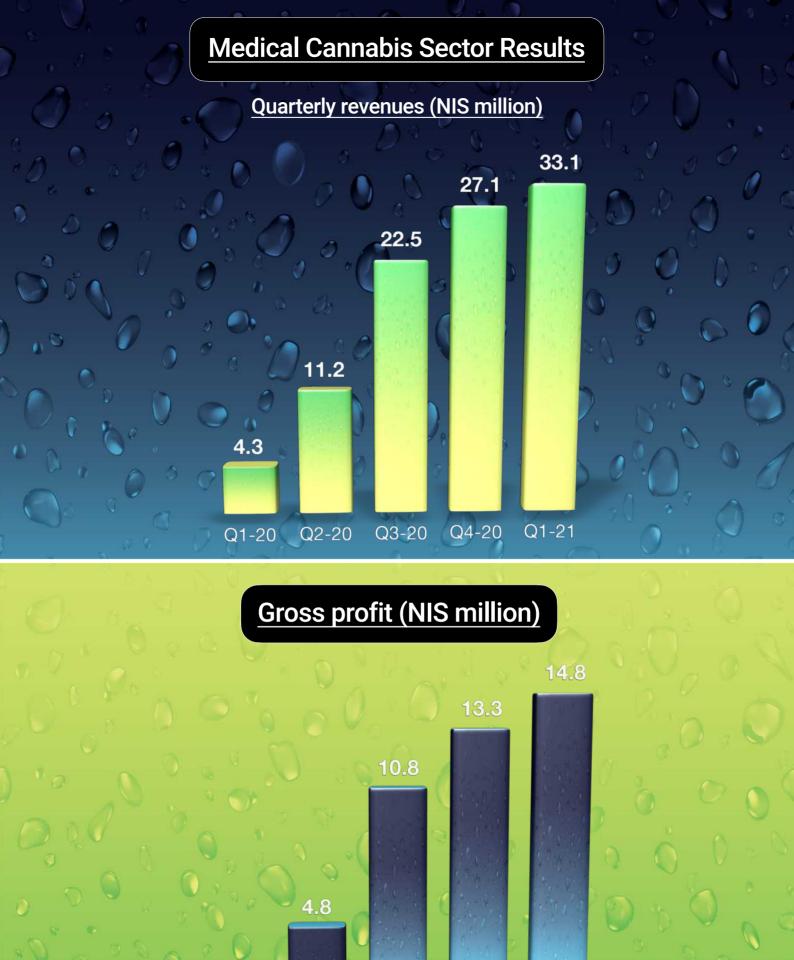












Q1-21

Q4-20

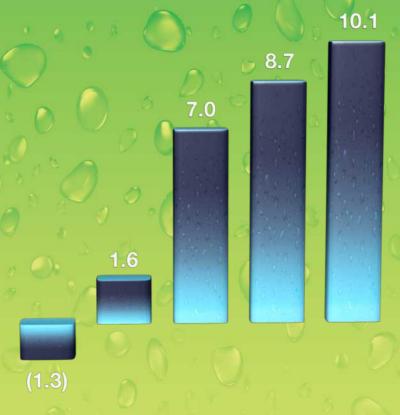
Q3-20

Q2-20

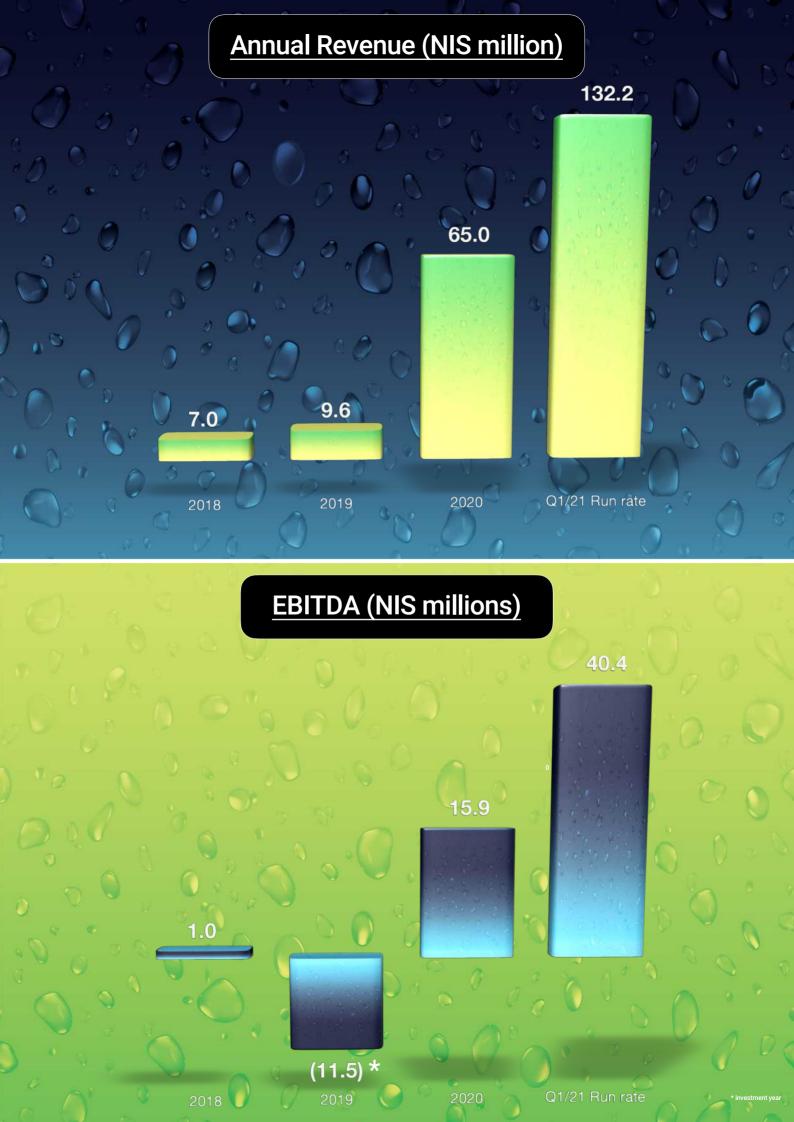
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Q1-20

EBITDA (NIS millions)



Q1-20 Q2-20 Q3-20 Q4-20 Q1-21



CANNDOC



















X

X

X

X

X

X

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X

X

X



X



Company Overview

We are an Israeli public corporation which our shares are dual listed for trading on the Tel Aviv Stock Exchange under the symbol "INCR" and on Toronto Stock Exchange under the symbol "INCR:U".

We have two direct subsidiaries, Canndoc Ltd. ("Canndoc") and Cannolam Ltd. ("Cannolam"). We currently own all of the issued and outstanding shares of Canndoc and 50.1% of the issued and outstanding shares of Cannolam. Unless otherwise specified, references in this section to "we", "our" and "us" refer to the business of Intercure and its subsidiaries.

We are a pioneer in the production (including the breeding, cultivating, and processing), manufacturing and distribution of pharmaceutical-grade cannabis and cannabis-based products for medical use. For more than 13 years, we have been a leader in the licensed production and distribution of cannabis and cannabis-based products throughout Israel, one of the first countries with a governmentally sanctioned regime for the production, manufacturing, and distribution of cannabis for medical use. Our goal is to be a global leader in the production and distribution of high-quality pharmaceutical-grade cannabis and cannabis-based products to patients in all territories that permit and regulate the distribution of cannabis for medical use, including Israel, the European Union and Canada.

Since the beginning of 2020, we have focused on accelerating and growing our commercial activity in major markets around the world. As part of this strategy, we have entered into exclusive collaborations with the largest international cannabis companies in the world including Tilray, Organigram, Aphria and Charlotte's Web. These strategic agreements serve to advance our capabilities and emphasize our focus on delivering premium quality and branding to Israel and other target markets. We have expanded cooperation agreements for the production, marketing and distribution of our products in countries with supportive regulations such as Germany, the United Kingdom, Canada and more, all of which are pending the permanent approval of commercial cannabis exports from Israel.

Through Cannolam, we operate the private chain Givol TM which is the first and leading chain of pharmacies focused on medical cannabis in Israel. The chain currently includes ten pharmacies across Israel. In addition, the chain operates a nationwide ordering and delivery system that serves the entire medical cannabis patient community in Israel. The chain includes nine active pharmacies and another pharmacy under construction in the city of Be'er Sheva. Six of the pharmacies holds permits and licenses for the distribution of medical cannabis and we are in the process of obtaining those licenses.

Our production system, assuming that the facilities operate at their maximum capacity, and all regulatory approvals are received, allows for a maximum production capacity of over 100 tons of high-quality medical cannabis. This system enables us to be flexible and efficient, and to meet the standards required to execute commercial exports from Israel and to serve growing demand in Israel and around the world.

In 2019, we invested significant resources to upgrade and expand its production systems and establish a global network of advanced production facilities that meet the quality requirements and strict standards across target markets. In December 2020, the Company was granted a permit by the Israeli Ministry of Health (the "MOH"), as part of a cannabis-export pilot program, for the commercial export of its products to Tilray as part of a strategic partnership between the companies. The export permit was obtained after the Company secured an import permit from the Portuguese authorities, demonstrating its products complied with the requirements of European regulation in Portugal and the EU-GMP standard. The export request is a continuation of the developments that have taken place in Israel in recent months and the Company's preparations for exporting its products.²

We believe in the uncompromising quality of our products and we are leading the trend towards the pharmaceutical standard in the medical cannabis industry, both through a high quality, advanced production system and through extensive research and development with nine clinical studies approved by the MOH and one active phase 3 clinical trial. We have acquired a unique knowledge throughout our

¹ **Note**: during the fourth quarter of 2020, the Israeli government, as part of a pilot project to issue export permits for licensed producers, granted us a temporary export permit. The pilot program (as well as our temporary export permit) was set to expire on December 31, 2020, but was subsequently extended.

² **Note**: We received an export license in the fourth quarter of 2020, which was subsequently extended.

13 years of experience operating in the cultivation, growth and genetics of cannabis strains. Combined with our analyses of patient use and experience data, we are uniquely positioned to enter into research collaboration agreements with leading organizations and companies. In addition, we have invested in a production system that adheres to the strictest regulatory and quality standards. In doing so, we achieve the highest standard of product quality for our patients and for commercial research collaborations. We believe this will enable us to enter into future partnerships and agreements with pharmaceutical companies.

We, through our wholly-owned subsidiary, Canndoc, and our 50.1% interest in Cannolam, operate primarily in the cannabis sector ("Cannabis Sector"). In addition, we, as a result of our operations prior to its acquisition of Canndoc, have financial assets in the biomed sector that were made for investments purposes and do not represent a material focus of our current business ("Biomed Sector"). Our only reporting segment as of the date of this MD&A is the medical cannabis sector which generates 100% of our revenue.

Qualified Transaction

On February 9, 2021, we entered into an amended and restated definitive agreement with Subversive Real Estate Acquisition REIT LP (formerly Subversive Real Estate Acquisition REIT LP) ("SVX") a special purpose acquisition company (SPAC), pursuant to which we, through our wholly-owned subsidiary, acquired all of the outstanding limited partnership units of SVX in exchange for the issuance of our ordinary shares by way of a plan of arrangement (the "Transaction").

On April 23, 2021 our shares were listed on the TSX and the first trade of our common shares on the TSX occurred on April 26, 2021. As part of the Transaction we raised total funds of NIS 182 million (gross before expenses), which is the highest equity funding achieved by an Israeli medical cannabis company.

We submitted a registration form (20-F) to the U.S. Securities and Exchange Commission and an application for the listing of our shares on NASDAQ.

Key Q1 2021 Financial Highlights – Cannabis Sector

	<u>Q1-20</u>	<u>Q1-21</u>	Change (%)
Revenues	4,259	33,051	776%
Gross Profit (1)	1,516	14,827	978%
% Gross Profit	36%	45%	25%
Operating Profit	(1,606)	7,552	NA
Adjusted EBITDA (2)	(1,313)	10,065	NA
Net Cash from Operating Activities (consolidated)	(3,897)	7,705	NA

- (1) Gross profit before effect of fair value.
- (2) EBITDA adjusted for changes in the fair value of inventory, share-based payment expense, impairment losses (and gains) on financial assets, non-controlling interest and other expenses (or income). This is a non-IFRS financial measure and does not have a standardized meaning prescribed by IFRS. See "Non-IFRS Measure".

- Record quarterly revenue of ~ NIS 33.1 million (CAD 12.2 million), which is eight times greater than Q1 of 2020 and an increase of more than 22% the previous quarter (Q4 2020);
- EBITDA for the first quarter was NIS 9.5 million (CAD 3.5 million), and NIS 10.1 million (CAD 3.7 million) for cannabis sector. This represents an annual run rate of NIS 40 million (CAD 14.8 million), a significant increase year over year, driven by revenue growth, improvement in gross profit and operating profit;
- Positive cash flow from operations for the third consecutive quarter of NIS 8 million (CAD 3 million);
- NIS 40 million cash (CAD 15 million), not including NIS 182 million (CAD 68 million), the gross amount raised by the SPAC prior to the merger;

Review of the Company's Operations

a. Exclusive Partnerships with Global Leaders

We have entered into the following partnerships, all of which provides us with exclusive relationships to distribute the noted products within certain geographical areas:



Cookies is one of the most well-respected and top-selling cannabis brands in California and throughout the world. The company and its product are recognized globally and offer a collection of over 150 proprietary cannabis varieties and product lines.

Cannolam entered into an exclusive license agreement with Cookies in 2019 by which Cannolam will have the exclusive rights to use the Cookies brand in Israel. Cannolam opened a Cookies branded pharmacy in Jerusalem and is expected to open an additional branded pharmacy in Be'er Sheva during the second quarter of 2021

In April 2021, we expanded our partnership with Cookies by entering into a letter of intent to expand the Cookies brand into Europe. According to the letter of intent, we will establish joint ventures in European countries that will focus on cultivating, manufacturing, and distributing Cookies branded products. In addition, we will cultivate Cookies branded products at our southern facility in Israel which we also plan will supply Cookies products to Cookies stores throughout Europe.



Tilray Inc. (NASDAQ: TLRY) ("**Tilray**") is a global pioneer in the research, cultivation, production, and distribution of cannabis and cannabinoids, currently serving patients and consumers in 16 countries spanning five continents.

In December 2019, we established a strategic collaboration with Tilray for the purpose of providing us with access to existing and potential markets in Tilray's operating territories. The collaboration between us and Tilray consists of a set of agreements with Tilray Portugal Unipessoal Ltd., a wholly-owned subsidiary of Tilray, pursuant to which, Tilray will import GMP-quality medical cannabis products from us (the "Tilray Agreements"). Tilray's facility in Portugal has an annual maximum production capacity of 25 metric tons of cannabis.³

As of the date of the MD&A, we agreed with Tilray that we are entitled us to additional shipments of cannabis products, subject to both parties obtaining the required permits which are expected to be received by the end of the second quarter of 2021. Together with Tilray, we are exploring several more potential shipments.

³ **Source**: ttps://mjbizdaily.com/canadas-tilray-build-marijuana-production-arm-portugal-serve-eu/

The Tilray Agreements provide us with a seven-and-a-half year exclusivity period over all of the final Tilray-branded products sold in Israel.

Tilray's Cantanhede site in Portugal



ORGANIGRAM

Organigram, Inc. (NASDAQ: OGI) (TSX: OGI) ("Organigram"), is a leading licensed producer of cannabis.

In June 2020, we entered into a contractual relationship with Organigram for the purpose of collaborating to develop, import and export medical cannabis products in the state of Israel and across Europe (the "**Organigram Agreement**"). Organigram's facility located in New Brunswick has a potential annual capacity of 70 tons.

The Organigram Agreement specifies that, subject to obtaining the required permits, we will import from Organigram 3,000 kilograms of medical cannabis products from Organigram's advanced indoor facility in Canada ("Indoor Products") within a period of 18 months (the "Organigram Initial Period"). In accordance with the Organigram Agreement, we will produce and market the medical cannabis products imported from Organigram in pharmacies throughout Israel and Europe. We will be provided with the option to import from Organigram an additional 3,000 kilograms per year of medical cannabis products for a period of two years from the end of the Organigram Initial Period, under the same terms and conditions as those in place during the Organigram Initial Period. These products will be marketed under our "Canndoc Indoor" brand and we, and Organigram, will examine the possibility of selling these products under a joint brand, in compliance with and subject to the Israeli Medical Cannabis agency's ("IMCA") instructions. We will then manufacture and transform the imported product into Canndoc's GMP-branded product. Final products will be distributed by Canndoc's distribution channels to all pharmacies in Israel. In August 2020, we successfully imported our first shipment of the noted products from Organigram into Israel and successfully launched the "Canndoc Indoor" family of products.

The Organigram Agreement provides us with an aggregate of up to a seven-and-a-half year exclusivity period (in addition to certain other rights and subject to certain conditions) over all of the final Organigram-branded products sold in Israel.

Organigram's Indoor site (Moncton Campus) in Canada

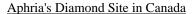




Aphria Inc. (NASDAQ: APHA) (TSX: APHA) ("**Aphria**") is one of the largest leading worldwide cannabis production companies, with its "Diamond Facility" in Leamington, Ontario being one of the biggest and most advanced cannabis facilities in the world, and having an annual production capacity of 140 metric tons.

In August 2020, we entered into an agreement with Aphria (the "Aphria Agreement") for the import of bulk cannabis products from Aphria's facility in Canada into Israel. Pursuant to the Aphria Agreement, we will purchase from Aphria's production facility in Canada, and import into Israel, up to 3,000 kilograms of "bulk" quality medical cannabis for a period of two years ("Aphria Initial Period"). We have the option to import up to 6,000 kilograms of additional product from Aphria for two additional periods of two years each. This option begins at the time on expiry of the Aphria Initial Period and under the same terms and conditions as during the Aphria Initial Period. We will then manufacture and transform the imported product from into Canndoc's GMP-branded product. Final products will be distributed by Canndoc's distribution channels to all pharmacies in Israel. In November 2020, we successfully imported our first shipment of the noted products from Aphria into Israel and successfully launched the "Canndoc Stars" family of products.

The Aphria Agreement provides us with an aggregate of up to a seven-and-a-half year exclusivity period (in addition to certain other rights and subject to certain conditions) over all of the final Aphria-branded products sold in Israel.







Charlotte's Web Inc. (TSX: CWEB) (OTCQX: CWBHF) ("Charlotte's Web") is the owner of one of the largest worldwide CBD brands (with over 2.3 million pounds of cannabis produced in 2019).

In December 2020, we entered into a collaboration with Charlotte's Web, under which we will be the sole partner of Charlotte's Web in Israel, and through which its products will be marketed in Israel under a joint brand for the Israeli market, subject to certain conditions, including certain regulatory matters within central European countries and England (the "Charlotte's Web Agreement"). The arrangement is subject to the receipt of the required regulatory agreements.

We will be responsible for obtaining the regulatory approvals required in order to register the purchased products and their importation and will take appropriate marketing and sales actions. Together with Charlotte's Web, we will explore opportunities for clinical trials, product development and Israeli product manufacturing.

The Charlotte's Web Agreement is for a period of five years (with a one year extension option) from the date that CBD is removed from the Israeli Dangerous Drug Ordinance [New Version], 5733-1973 (which has yet to occur).



Fotmer Corporation S.A. ("**Fotmer**") is a corporation established in Uruguay, that cultivates and produces medical cannabis at an internationally high level. In December 2020, we entered into an agreement with Fotmer, under which we will import from Fotmer approximately 3,000 kilograms of quality medical cannabis products, each year for a period of four years (the "**Fotmer Agreement**").

Pursuant to the Fotmer Agreement, we have agreed to pay Fotmer an initial amount of US\$650,000 as a down payment for the first shipment of medical cannabis products, which will be classified as a loan, bearing an annual interest rate of 5.51% and secured by Fotmer's Canadian parent company, until the export and import permits for the first shipment of products are obtained.

Subject to the terms set out therein, the Fotmer Agreement provides us with a seven-and-a-half year exclusivity period over all of the final Fotmer-branded products sold in Israel.

b. Global Production System

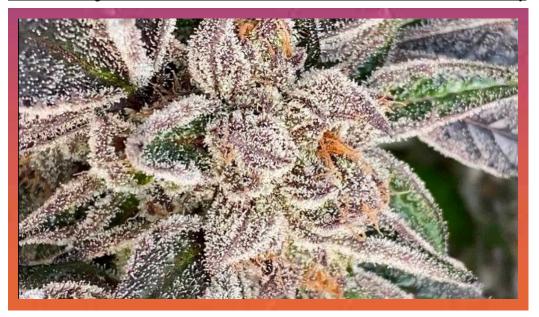
As of the date of this MD&A, our production capacity, assuming that the facilities operate at their maximum capacity, and all regulatory approvals are received, produces over 100 tons of GMP-certified pharmaceutical-grade cannabis. In addition, through strategic partnerships with leading license producers, we may have access to additional high quality medical cannabis on demand.

<u>Israeli production Facilities</u>

Through our partnership with Kibbutz Nir-Oz are one of the largest medical cannabis production sites in Israel and in the world, covering a total area of 1.7 million square feet, of which 300,000 square feet are operation and produce up to 10,000 kilograms of pharmaceutical-grade cannabis per year. Full operations in the Southern Kibbutz will allow us to produce 88 tons of pharmaceutical-grade cannabis per year. The development of the southern site is carried out in a modular manner in accordance with the regulatory developments concerning the export of medical cannabis from Israel.

Through our partnership with Beit HaEmek Kibbutz, we own and operate our primary production facility, located in northern Israel, utilizing climatized greenhouses. This site currently occupies approximately 55,000 square feet with the capacity to produce up to 3,000 kilograms of pharmaceutical-grade cannabis per year.

Canndoc - new genetics - CANNDOC CaliTM cultivated in Canndoc's advanced southern facility



Denmark

In May 2020, we entered into an EU-GMP distribution agreement with a Danish partner for the production of up to 11.7 tonnes of cannabis per year for a period of 3 years. As part of this agreement, we will manufacture our products in a facility located in Denmark. This manufacturing facility is approved by the Good Manufacturing Practice of the European Union ("EU-GMP") standard and has all the licenses and permits required for the cultivation, production, distribution and marketing of cannabis. The manufacturer will be responsible for the entire growth and production process of the products, as well as the logistical process of transporting and packaging the products in accordance with all applicable legal requirements. The partner will be entitled to a portion of the profits generated as a result of the sales made through our distribution channel. This facility is operational and we are currently in the process of obtaining approval for importing products from Denmark to Germany with this partner. As of the date of this MD&A, no sale of products has commenced and this partnership does not impact our financial statements in any way.

Canada

In May 2019, we entered into a partnership with a Canadian company that is in the advanced stages of building an indoor complex for the production and distribution of cannabis products for medical use in Canada. We established a joint venture with the Canadian partner, which pursuant to the joint venture agreement, will entitle us to 51% of the profits generated from the sale of our products. The production and distribution of the products will be done under the "CANNDOC" brand while the marketing of the products will be done by the partner. While this facility is operational for cultivation, it has not yet received all of the licenses and permits required for the sale of products. As of the date of this MD&A, no sale of products has commenced and this partnership does not impact our financial statements in any way.

c. Sales and Distribution

<u>Israel</u>

Under current regulations, patients in Israel fill prescriptions directly from a registered pharmacy. Our products meet all of the IMCA standards and are permitted to be sold within all registered pharmacies across Israel that are otherwise permitted to dispense medical cannabis to patients. We sell our products through pharmaceutical distributors and licensed retail pharmacy locations where patients can fill their prescriptions on-site or have our products delivered directly to their residence. Under the old regulations, the IMCA instituted a fixed price for the monthly supply of cannabis products, regardless of the dosage

or form of use. Under the current regulations, the price of cannabis products is not fixed and will be determined primarily by market demand.

We have developed wholesale supply relationships with government and academic research institutions and private businesses throughout Israel and these relationships require minimal selling, administrative and fulfillment costs. We believe there is potential for the wholesale of finished, packaged products to other licensed producers, and we intend to pursue this sales channel as a part of our growth strategy.

SLE

In September 2019, we entered into a distribution agreement with SLE, a subsidiary of Teva Group Pharmaceutical Industries Ltd., a leading Israeli company in the health services field (the "SLE Agreement").

Pursuant to the SLE Agreement, SLE will provide us with logistics, storage, collection and distribution services for our medical cannabis products throughout Israel for a term of three years, with two optional extensions of two years each. SLE holds an IMC-GDP distribution license and possesses an advanced logistics facility.

Novolog

In December 2020, we entered into a distribution agreement with Novolog, a leading Israeli company in the logistic health services field.

Pursuant to the noted agreement, Novolog will provide us with logistics, storage, collection and distribution services for our medical cannabis products throughout Israel for a term of three years, with two optional extensions of two years each. Novolog holds an IMC-GDP distribution license and possesses an advanced logistics facility.

Super-Pharm

In March 2020, we entered into a binding preliminary distribution agreement with Super-Pharm Ltd. ("Super Pharm"), the largest chain of pharmacies in Israel (which operates approximately 260 pharmacies) (the "Super Pharm Agreement"). Super Pharm currently operates 60 pharmacies that sell cannabis for medical purposes (the "Super Pharm Pharmacies"). Pursuant to the Super Pharm Agreement, Super Pharm agreed to purchase from us, and we agreed to sell to Super Pharm, 10,000 kilograms of our medical cannabis products for a period of 3 years. The Super Pharm Agreement requires our products to be in compliance with the Israel Medical Cannabis-Good Manufacturing Practice standards.

The parties to the Super Pharm Agreement have covenanted to negotiate in good faith and enter into a detailed agreement within 90 days from the date of the Super Pharm Agreement. The parties, by mutual agreement have agreed to extend the said period to June 30, 2021 and negotiations of the detailed agreement remain ongoing.

Pursuant to the Super Pharm Agreement, Super Pharm will be responsible for distributing the final products to each individual Super Pharm pharmacy, while we will provide professional training and clinical knowledge about our products to Super Pharm and Super Pharm Pharmacies over the term of the agreement.

<u>International</u> Germany

In June 2019, we entered into a non-exclusive distribution agreement with a licensed distributor in Germany, for the purpose of distributing our pharmaceutical-grade products within Germany (the "German Distribution Agreement"). The German Distribution Agreement contains customary obligations, intellectual property, confidentiality and indemnification provisions. Each party to the German Distribution Agreement is entitled to terminate the German Distribution Agreement in the event of an uncurred material breach of the agreement, the insolvency of the other party or a change of control event.

On April 4, 2021, we entered into a partnership with an Austrian entity to operate together in the developing cannabis markets in Austria and Luxembourg. Pursuant to the agreement, the partnership will replicate the successful model of our subsidiary Canndoc in Israel to establish and manage the distribution, marketing, and sales of the company's products in selected countries in Europe. The partnership's planned operations will be vertically integrated and will include both online and retail distribution for our branded products. The Austrian entity has committed to invest €10 million in an Austrian joint venture, which will be equally owned by the parties, with an option for the Austrian entity to increase its shares to 51% of all outstanding shares of the joint venture at any time.

d. Research and Development

We believe that innovation is a key component of our competitiveness and growth in the medium and long-term and is driven by market research and analysis of potential new products and the development of new technologies. We engage in the research of agricultural techniques that utilize climatic advantages and our agrotech capabilities to improve the yield of cannabis plants in their production of various cannabinoids. Our research and development programs have also involved the development of high-quality protocols, elite genetics with improved disease and stress resistance, compound fractional distillation and separation and advanced formulation methods.

Since 2014, we have collaborated with various world-renowned research institutions, such as Technion – Israel Institute of Technology, Volcani Center (the research arm of the Israeli Ministry of Agriculture) and other universities and institutions accredited by the Israeli Council for Higher Education. As a result of these collaborations, we have enhanced our production capabilities, improved and optimized our genetics, and developed additional cannabinoid profiles. Our research and development operations also include collaborations with a renowned governmental institute as well as various research entities, researchers, start-up companies, mature companies and commercial entities holding licenses from the IMCA.

Clinical Trials

Based on our information and experience in providing medical cannabis to patients, we developed a broad and advanced clinical research program based on GMP - quality products approved by the IMCA.

During November 2019, we began clinical research with the Research and Development Foundation of the Shamir Medical Center (Assaf Harofeh) and with a principal investigator on his behalf to examine the effect of medical cannabis products on autism spectrum disorder in children. The study will be conducted at Assaf Harofeh Hospital, is expected to include about 100 participants and will last a period of 24 months.

We received the approval of the IMCA to conduct nine advanced clinical trials based on additional medical cannabis products in the IMC-GMP standard in strategic collaboration with leading medical centers in Israel. As part of the clinical trials, we will serve as the initiator of the clinical trials conducted by the research partners. The program includes clinical trials of the company's products on a variety of medical indications (epilepsy, fibromyalgia, neuropathic pain, side effects of chemotherapy in cancer patients, Parkinson's, rheumatoid arthritis, radicular pain, post-taroma) and radiculopathy (PTSD).

In addition, we submitted an application for approval of a clinical study to examine the effect of cannabis use on the dose and / or frequency of opioid use in collaboration with Sheba Hospital.

The studies are phase 2 studies and are performed randomly, double-blind and placebo-controlled (randomized, placebo-controlled, double-blind) as is customary in pharma studies according to FDA requirements, with dozens of subjects participating in each clinical study. It should be noted that due to the coronavirus Covid 19), a delay in studies is expected.

Results of Operations

Financial data is expressed in thousands of NIS. The following table summarizes our historical consolidated statements of comprehensive income for the three months ended March 31, 2021 and 2020 and the three month period ended December 31, 2020:

		nonth period March 31	For the 3-month period ended on December 31
	2021	2020 ⁽¹⁾	2020 ⁽¹⁾
Revenues	33,051	4,259	27,094
Gross profit before effect of fair value	14,827	1,516	13,302
Gross profit after effect of fair value	14,162	1,609	13,616
Research and development expenses	361	374	342
General and administrative expenses	5,280	5,023	4,475
Marketing and selling expenses	3,569	1,119	3,064
Impairment losses and (gains)			
on financial assets through profit or loss	(164)	39,350	2,650
Other expenses (income), net	-	3,127	(931)
Consolidated operating profit (loss)	5,116	(47,384)	7,454
Comprehensive income (loss)	3,255	(47,209)	10,228
Interest / Financing cost	90	(175)	(229)
Tax expenses (income)	1,771	-	(2,545)
Depreciation and amortization	1,848	390	1,071
EBITDA	6,964	(46,994)	8,524
Share-based payment expenses	2,004	3,266	1,675
Other expenses (income), net	-	3,127	931
Impairment losses and (gains) on financial assets through profit and loss	(164)	39,350	(2,650)
Fair value adjustment to inventory	665	(93)	(315)
Adjusted EBITDA	9,468	(1,344)	8,165
Basic earnings (loss) per share	.012	(0.03)	0.19
Diluted earnings per share	0.11	(0.02)	0.17

⁽¹⁾ Cannolam operations consolidated for the first time on July 1st, 2020.

Revenues – Revenue for the first quarter of 2021 was approximately eight times greater compared to the corresponding period last year, and increased in 22% compared to the fourth quarter of 2020. The growth was primarily derived from high demand for the company's quality product lines, market growth, increase in the company's market share, implementation of commercial agreements with pharmacies, international collaborations and the consolidation and continues grow of Cannolam's results.

During the period, Canndoc Successfuly launched premium products under the brand: CANNDOC CaliTM. The series of GMP products were cultivated and manufactured in Canndoc's advanced southern facility

Gross profit after effect of fair value –gross profit for the first quarter of 2021 increased of 978% to NIS 14.8 million compared to NIS 1.6 million in the corresponding quarter, mainly in light of the accelerated growth in revenue.

Adjusted EBITDA - Significant improvement in compare to negative Adjusted EBITDA in corresponding period and compare to previous quarter. The improvement is mainly due to revenue growth (as a result of an increase in market share), increase in gross profit margin, while keeping operating expenses relatively stable.

Total Assets and Liabilities

	As of March 31th		As of Deco	ember 31 st
	2021 2020		2020	2019
Total current assets	82,907	33,708	76,652	42,208
Total non-current assets	259,970	206,928	249,618	240,025
Current Liabilities	34,936	25,087	29,879	16,898
Non-current Liabilities	9,020	2,763	4,284	652

Total Current assets

The increase was primarily due to significant continuous increase in Intercure's activity (trade receivables, inventories, and biologic assets) and the consolidation of Cannolam's in July 2020.

Total non-current assets

The increase was primarily due to the consolidation of Cannolam's non-current assets to those of Intercure in July 2020 and capital investments in the Southern Kibbutz.

Current Liabilities

The change in compare to Q1 2020 was mainly due to: (a) increase in the Company activity which led to increase in the trade payable, and other payables; (b) decrease due to repayment of loan from related party.

Non-Current Liabilities

The increase was primarily due to consolidation of Cannolam's activity in July 2020 and applying to IFRS 16 standard to an additional lease agreement.

Cash Flow

Intercure's approach to liquidity is to always have sufficient liquidity to meet its liabilities as they come due. This is achieved by continuously monitoring cash flows and reviewing actual operating expenditures and revenue against budget.

Cash Flow	For three months ended on March 31, 2021 ⁽¹⁾	For three months ended on March 31, 2020 ⁽¹⁾
Net cash provided by (used in) operating activities	7,705	(3,897)
Net cash provided by financing activities	901	(166)
Net cash provided by (used in) investing activities	(5,818)	(6,132)
Change in cash during the period	2,788	(10,195)
Exchange differences in respect of cash and cash equivalent balances	37	181
Cash and cash equivalents, beginning of year	37,888	27,338

	For three	For three
Coch Flow	months ended	months ended
Cash Flow	on March 31,	on March 31,
	2021 ⁽¹⁾	$2020^{(1)}$
Cash and cash equivalents, end of year	40,715	17,324

⁽¹⁾ Cannolam operations consolidated for the first time on July 1st, 2020.

Net cash flow used in operating activities — The increase was primarily due high demand to our quality products lines and shows a continuous improvement in all profitability indices which is reflected both in the improvement of operating profitability and in continuous improvement and positive cash flow from operating activities.

Net cash provided by financing activities – the main increase in compare the corresponding quarter was mainly due options (B) exercise by several institutions' parties.

Net cash used in investing activities - The main investment for three months ended on March 31, 2020 were mainly due the continued invested in fixed assets by expanding the production system (investments in the Southern Kibbutz). In three months ended on March 31, 2021 the main investment were mainly continues investment in the Southern Kibbutz and purchase of additional pharmacy by the granddaughter company – Cannolam Retail Ltd.

Use of Proceeds

The Company's intended use of proceeds from the Transaction has not changed from the disclosure set forth in the "Capitalization and Use of Proceeds" section of the Prospectus to the date of this MD&A.

Summary of Quarterly Results

The following table below sets out certain financial data for the Company:

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Revenue	33,051	27,094	22,497	11,185	4,259	1,828	2,598	2,777
Gross Profit	14,827	13,302	10,755	4,814	1,516	442	(1,063)	1,168
Adjusted EBITDA	9,468	8,165	6,441	1,582	(1,344)	(3,914)	(6,083)	(2,262)

⁽²⁾ Canndoc operations consolidated for the first time on February 2019.

Liquidity and Capital Resources

Intercure has been generating profits and has experienced positive cash flows, which are the expected to be the primary sources to fund its future operations. In addition, Intercure has cash reserves as a result of the completion of the noted private placements. Lastly, as a public company, Intercure may access the public and/or private markets to finance any additional needs it may have, including through the issuance of debt or equity securities.

Intercure does not expect to require any additional funding in the future as it projects a positive cash flow from operations.

Critical Accounting Estimates

The Company's critical accounting estimates are summarized in note 2 of the Intercure Financial Statements and have not changed during the following interim period.

Outstanding Share Data

As of the date of this report (May 16 2021) Intercure's current outstanding shares capital can be summarized as follows.:

The table below reflact the Company outstanding share data following: (a) capital consolidation at the ratio of 1:4.44926 which was approved by the Company's general assembly on April 1st; (b) the issuing of the shares as part of the Transaction.

Type	Shares	Options / Warrants
Intercure Shares	42,671,380*	
Options (A)		2,150,919
Options (B)		1,193,284
ESOP (A)		1,199,791
ESOP (B)		967,208
Total	42,671,380	5,511,202

⁽x) includes 5,237,000 shares allocated as part of the SPAC Transaction which are subject to (a) the Company shares listed on NASDAQ and (b) the Company's shares listed on NASDAQ reaching the Target Price; and are subject to forfeiture as defined and described in the Prospectus.

Off-Balance Sheet Transactions

The Company has no off-balance sheet arrangements.

⁽¹⁾ Options (A) with an expiration period of three year for the date of issuance (September 2018) with an exercise price of NIS 1.69 per Intercure Share.

⁽²⁾ Options (B) were issued to certain investors in July, 2020 and expire in August 2023 with an exercise price of NIS 19.57 per Intercure Share.

⁽³⁾ ESOP (A) were issued to our directors between September 2018 to January 2020 and expire in ten years from the date of issuance with an exercise price of NIS 15.57 per Intercure Share.

⁽⁵⁾ ESOP (B) were issued to certain employees in February 2021 and expire in four years from the date of issuance with an exercise price of NIS 18.37 per Intercure Share.

Financial Instruments and Other Instruments

We do not have any financial instruments other than normal course accounts receivable and payables associated with our business activities.

Risk and Uncertainties

We are subject to foreign exchange and liquidity risks.

Foreign Exchange Risk. Our reporting and functional currency is the NIS, but some portion of our operational expenses are in U.S. dollars, Canadian dollars and Euros. As a result, we are exposed to some currency fluctuation risks. We may, in the future, decide to enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the currencies mentioned above in relation to the NIS. These measures, however, may not adequately protect us and our operations could be adversely affected if we are unable to effectively hedge against currency fluctuations in the future.

Liquidity risk. We monitor forecasts of our liquidity reserve (comprising cash and cash equivalents available-for-sale financial assets and short-term deposits). We generally carry this out based on our expected cash flows in accordance with practice and limits set by our management. We are in the process of expanding our operations and the expenses associated therewith and we are therefore exposed to liquidity risk.

Subsequent Events

- 1. On April 1, 2021, our annual general assembly took place, which, among others, the following resolutions were approved: (a) the re-appointment of Mr. Ehud Barak, Alexander Rabinovitch, Alon Granot and David Salton as directors of the Company for an additional period of 1 year; (b) the approval of the Transaction; (c) the approval of appointment of Mr. Michael Auerbach as director of the Company (Mr. Auerbach was appointed as board observer up to the date of receipt of the required approval from IMCA); (d) increase of the Company's registered capital; and (e) consolidation of the issued capital of the Company at the ratio of 1:4.44926.
- 2. On April 4, 2021, we entered into a partnership with an Austrian entity to operate together in the developing cannabis markets in Austria and Luxembourg. Pursuant to the agreement, the partnership will replicate the successful model of our subsidiary Canndoc in Israel to establish and manage the distribution, marketing, and sales of the company's products in selected countries in Europe. The partnership's planned operations will be vertically integrated and will include both online and retail distribution for our branded products. The Austrian entity has committed to invest €10 million in an Austrian joint venture, which will be equally owned by the parties, with an option for the Austrian entity to increase its shares to 51% of all outstanding shares of the joint venture at any time.
- 3. On April 5, 2021, we signed a non-binding letter of intent to acquire 100% of the Israeli activity of Cann Pharmaceutical Ltd. ("Cann") which holds the rights for cultivation and marketing medical cannabis products under the brand "Better", one of our competitors and a pioneer in the Israeli medical cannabis market, with operations in Australia and several Asian countries. The transaction is subject to satisfaction of due diligence and signing a definitive agreement. Pursuant to the letter of intent, we will allocate Cann shareholders a number of our ordinary shares with a value of \$35 million. The allocated shares will be subject to a contractual lock-up for a period of three years, with one-third of the shares being released from lock-up every year (with a moderate monthly exercise mechanism).
- 4. On April 6, 2021, we expanded our partnership with Cookies by entering a letter of intent to expand the Cookies brand into Europe. According to the letter of intent, we will establish joint ventures in European countries that will focus on cultivating, manufacturing, and distributing Cookies branded products. In addition, we will cultivate Cookies branded products at our southern facility in Israel which we also plan will supply Cookies products to Cookies stores throughout Europe.

- 5. On April 13 and April 21, 2021, we filled an application and register form (20-F) for listing our shares on NASDAQ.
- 6. On April 23, 2021, our shares were listed on the TSX (first trade commenced on April 26th) and by fulfillment of the condition the Transaction was closed, and the SPAC combined with the Company. As part of the Transaction, we raised total funds of 182 million NIS, which is the highest capital funding made by an Israeli medical cannabis company. As part of the Transaction, the Company issued 15,650,280 ordinary shares to the SPAC and the PIPE investors. the allocated shares include 5,237,000 shares allocated as part of the SPAC Transaction which are subject to the Company shares listed on NASDAQ and reaching the Target Price and are subject to forfeiture as defined and described in the Prospectus.
- 7. On April 27, 2021, the Company issued to Mr. Alexander Rabinovich 224,756 options designated as Options-A2 to purchase 224,756 ordinary shares of Intercure. The options were granted following the General Assembly from August 2019 as part of Canndoc acquisition transaction and as approved by the Company's general assembly on April 1, 2021 as part of the Transaction.
- 8. On May 3, 2021 we announced the opening of the first "LEMONNADE" branch in Israel as part of the Givol TM pharmacy chain. The pharmacy has officially begun operating after received its cannabis dispensing license from the Israeli Medical Cannabis Agency (IMCA) on April 27, 2021. This is the first branch under the "LEMONNADE" brand (from the Cookies family) outside of North America to begin operations. The branch will operate and provide services to the community of medical cannabis patients in Jerusalem, which has one of the highest number of licensed cannabis patients in Israel.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.

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Intercure Ltd.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS As Of March 31, 2021 (Unaudited)

Intercure Ltd.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS <u>As Of March 31, 2021</u>

(Unaudited)

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		March 31	December 31
		2021	2020
		(Unaudited)	
		NIS in t	housands
<u>Current assets</u>			
Cash and cash equivalents		40,715	37,888
Restricted cash		40	40
Trade receivables		15,882	12,466
Other receivables		5,341	3,680
Inventory	5	16,417	19,049
Biological assets	6	4,167	3,153
Financial assets measured at fair value through profit or loss	7	345	376
		82,907	76,652
Non-current assets			
Property, plant and equipment and right-of-use asset		63,643	53,470
Goodwill		190,103	190,103
Deferred tax assets		2,888	2,904
Financial assets measured at fair value through profit or loss		3,336	3,141
		259,970	249,618
Total assets		342,877	326,270

	March 31	December 31
	2021	2020
	(Unaudited)	
	NIS in t	housands
<u>Current liabilities</u>		
Current maturities	1,249	,
Trade payables	19,988	18,622
Other payables	12,517	8,705
Short term loan from non-conrolling interest	1,182	1,296
	34,936	29,877
Non-current liabilities		
Borrowings	292	388
Liabilities in respect of employee benefits	155	155
Loan from related party	207	241
Financial assets measured at fair value through profit or loss	5,000	-
Lease liability	3,366	3,500
	9,020	4,284
<u>Equity</u>		
Share capital, premium and other reserves	455,819	
Capital reserve for transactions with controlling shareholder	2,388	2,388
Receipts on account of shares	11,017	
Accumelated losses	(188,545)	(191,158)
Equity attributable to owners of the Company	280,679	274,506
Non-controlling interests	18,245	17,603
Total equity	298,924	292,109
Total equity and liabilities	342,877	326,270

		Three months ended March 31,			
		2021	2020		
	Note	NIS in thousands (excluding or regarding loss per share)			
Revenue		33,051	4,259		
Cost of revenue before fair value adjustments		18,224	2,743		
Gross income before impact of changes in fair value		14,827	1,516		
		<u> </u>	<u> </u>		
Unrealized changes to fair value adjustments of biological assets Profit from fair value changes realized in the		693	495		
current year		(1,358)	(402)		
Gross Profit		14,162	1,609		
Research and development expenses		361	374		
General and administrative expenses		5,280	5,023		
Selling and marketing expenses		3,569	1,119		
Other expenses (income), net		2,005	3,127		
Changes in the fair value of financial assets through profit or loss, net,		(164)	39,350		
Operating Profit (loss)		5,116	(47,384)		
Financing expenses (income), net		90	175		
Profit (Loss) before taxes on income		5,026	(47,209)		
taxes		1,771	_		
Total comprehensive Profit (loss)		3,255	(47,209)		
Attribution of net loss for the quarterly:					
To the Company's shareholders		2,613	_		
To non-controlling interests		642	_		
Total		3,255	(47,209)		
Loss per share					
Basic Profit (loss)**		0.12	(0.43)		
Diluted Profit (loss)**		0.11	(0.43)		
2 1 10111 (1000)		V.111	(0.13)		

^{**} On April 8, 2021 , after the balance sheet date, the Company effectuated a capital consolidation. See note 9a.

Intercure Ltd.

Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Share capital, premium and other reserves	Capital reserve for transactions with controlling shareholder	Receipts on account of shares	Accumelated losses NIS in thousand	Equity attributable to owners of the Company	Non- controlling interests	Total equity
As of January 1, 2021	452,259	2,388	11,017	(191,158)	274,506	17,602	292,109
Income (loss) for the year Exercise of share options Issuance of shares, net Share-based payment	1,556 2,004	- - - -	- - - -	2,613	2,613 1,556 2,004	642	3,255 1,556 2,004
As of March 31, 2021	455,819	2,388	11,017	(188,545)	280,679	18,244	298,924
As of January 1, 2020	406,297	2,388	1,214	(153,927)	255,972	229	256,201
Loss for the year Share-based payment	3,266	-	-	(47,209)	(47,209) 3,266	528	(47,209) 3,794
As of March 31, 2020	409,563	2,388	1,214	(201,136)	212,029	757	212,786

Intercure Ltd.

Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Share capital, premium and other reserves	Capital reserve for transactions with controlling shareholder	Receipts on account of shares	Accumelated losses NIS in thousands	Equity attributable to owners of the Company	Non- controlling interests	Total equity
As of January 1, 2020	406,297	2,388	1,214	(153,927)	255,972	229	256,201
Income (loss) for the year Exercise of share options Allocation of shares for the acquisition of Cannolam	833 6,904	-	-	(37,231)	(37,231) 833 6,904	1,191 15,655	(36,040) 833 22,559
Issuance of shares, net Share-based payment	28,217 10,008		9,803		38,020 10,008	528	38,020 10,536
As of December 31, 2020	452,259	2,388	11,017	(191,158)	274,506	17,602	292,109

	Three months ended March 31	
-	2021	2020
	NIS in the	ousands
Cash flows from operating activities		
Profit (Loss) Interest paid	3,255 (142)	(47,209) 60
Adjustments required to present cash flows from operating activities (A)	4,308	43,252
Net cash provided by (used in) operating activities	7,705	(3,897)
Cash flows from investing activities		
Purchase of property, plant and equipment Acquisition of activity Issuance of loan	(2,747) (2,580) (491)	(6,092)
Increase in deposit	-	(40)
Net cash used in investing activities	(5,818)	(6,132)
Cash flows from financing activities		
Proceeds from exercise of options Lease payments Receipt (repayment) of loans from banks	1,556 (170) (8)	(119) (8)
Receipt (issuance) of loan to related party and controlling shareholder	(434)	(-)
Receipt (repayment) of loan from related party and controlling shareholder	(41)	(39)
Giving a loan Net cash provided by financing activities	901	(166)
Increase in cash and cash equivalents	2,788	(10,195)
Exchange differences in respect of balances of cash and cash equivalents	37	181
Balance of cash and cash equivalents at beginning of year	37,888	27,338
Balance of cash and cash equivalents at end of year	40,715	17,324

	Three months ended March 31	
	2021	2020
	NIS in tho	usands
A) Adjustments required to present cash flows from operating activities		
Adjustments to items in the consolidated statement of comprehensive income:		
Depreciation	1,848	390
share-based payment	2,004	3,266
Changes in the fair value of financial assets through profit or loss, net	(164)	39,350
Finance expenses (income), net	90	(175)
Change in liabilities in respect of employee benefits, net	-	(6)
Income tax	1,771	-
	5,693	42,825
Changes in assets and liabilities items:		
Increase in trade receivables	(3,418)	(3,289)
Decrease (increase) in other receivables	(1,493)	3,896
Decrease (increase) in inventory	2,632	(2,620)
Increase in biological assets	(1,015)	516
Increase (decrease) in trade payables	1,363	(1,101)
Increase in other payables	688	3,025
	(1,243)	427
	4,308	43,252

Note 1 - General

A. The Company's activity

Intercure Ltd. (hereinafter: the "Company") is a public company which is listed on the Tel Aviv Stock Exchange and domiciled in Israel. Its offices are located in Herzliya. The Company is engaged in the medical cannabis sector through its holding of the entire issued and paid-up capital of Canndoc Ltd. (hereinafter: "Canndoc"), and through its 50.1% stake in the issued and paid-in capital of Cannolam Ltd. The Company also has additional holdings in the biomed sector.

Canndoc:

In 2018, the Company decided to expand its activity to the medical cannabis sector, and therefore engaged in an investment agreement with Canndoc Ltd. (hereinafter: "Canndoc").

In 2019, the Company completed the acquisition of the entire holding of Canndoc, such that, after the transaction was closed, the Company holds 100% of Canndoc's issued and paid-in capital.

The Company, through Canndoc, is engaged in research, marketing, cultivation, production and distribution of medical cannabis products in Israel and around the world.

Cannolam:

On May 14, 2020, the Company's board of directors approved the engagement in a series of agreements for the acquisition of a 50.1% stake in the shares of Cannolam Ltd., an Israeli private company, which holds, independently and/or through its owned subsidiaries, the exclusive rights to the production, importing, distribution and use of leading international cannabis and lifestyle trademarks in the teritory of the state of Israel. Inter alia, Cannolam Ltd. Has exclusive rights in respect of the brands Cookies, Mr. Nice and Oxon Pharma

Investments in the biomed sector:

The Company invested in two companies in the biomed sector: Regenera Pharma Ltd. (hereinafter: "Regenera") and NovellusDX Ltd. (hereinafter: "Novellus").

Note 1 - General (Cont.)

B. Definitions:

In these consolidated financial statements:

Company - Intercure Ltd.

Group - The Company and its subsidiaries.

Related Parties - As defined in IAS 24.

USD - U.S. dollars.

Subsidiaries - Companies which are controlled by the Company (as

defined in IFRS 10), directly or indirectly, and whose financial statements are fully consolidated with the

Company's reports.

Investee - Companies which are not under the Company's control, companies and which are presented according to the equity method.

Note 2 - <u>Significant Accounting Policies</u>

Preparation basis of the financial statements

The Group's condensed consolidated financial statements (hereinafter: the "Interim Financial Statements") were prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (hereinafter: "IAS 34").

These financial statements have been prepared in a condensed format as of March 31, 2021, and for the three months then ended ("interim condensed consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2020, and for the year then ended and accompanying notes ("annual consolidated financial statements").

Note 3 - Significant Transactions and Events During the Reporting Period

A. On January 3, 2021, the Company engaged in a merger agreement (hereinafter: the "Prior Agreement") with Subversive Real Estate Acquisition REIT LP, a third party unrelated to the Company and/or to its controlling shareholders, which is listed on the Canadian stock exchange NEO (NEO:SVX.U).

On February 9, 2021, the parties engaged in an amended and definitive agreement with Subversive Real Estate Acquisition REIT LP (formerly Subversive Real Estate Acquisition REIT LP) ("SVX") a special purpose acquisition company (SPAC), pursuant to which the Company, through a wholly-owned subsidiary, will acquire all of the outstanding limited partnership units of SVX in exchange for the issuance of the company ordinary shares by way of a plan of arrangement. On April 23, 2021, the Company shares were listed on the TSX and the first trade of the common shares on the TSX occurred on April 26, 2021. As part of the Transaction, the company raised total funds of NIS 182 million (gross before expenses).

December

- B. In January 2021, the Company engaged, through Cannolam, in an Agreement to purchase pharmacies located in Ashdod and Herzliya.
- C. On January 26, 2021, the Company published an outline of options for Company employees and officers, including an offer of up to 4,303,356 unlisted options, exercisable into up to 4,303,356 ordinary Company shares with no par value (hereinafter: the "Options"), which are offered in accordance with the 2015 options plan, to employees and officers of the Company and/or of the subsidiary Canndoc. The options in accordance with the outline were allocated on March 15, 2021.

Note 5 - <u>Inventory</u>:

Inventory is comprised of finished goods of dry packaged or rolled medical cannabis and cannabis oil, as well as the outputs of processing procedures, which include, inter alia, agricultural produce which has been transferred from biological assets, where the procedure of processing into finished goods has not yet been completed.

		Decamber
	March 31,	31,
	2021	2020
	NIS in thousands	
Finished goods	7,227	7,640
Goods in process and dried inflorescence	9,190	11,409
Total inventory	16,417	19,049

Note 6 - Biological Assets:

The Company measures biological assets (level 3), which are mostly comprised of medical cannabis plants and agricultural produce, at fair value less selling costs up to the point of harvest. This value serves as the cost basis of inventory after the harvest.

The Company's biological assets are primarily comprised of medical cannabis seedlings and medical cannabis. Presented below are the changes in biological assets during the reporting period:

	March 31,	31,	
	2021	2020	
	NIS in the	ousands	
Balance as of January 1	3,153	1,145	
Costs of growing medical cannabis plants	6,686	10,450	
Change in fair value less selling costs	693	3,202	
Transfer to inventory	(6,367)	(11,644)	
Balance as of December 31	4,167	3,153	

Disclosure regarding assumptions which were used to estimate the net fair value of biological assets

A. below are the main assumoption used:

	31/03/2021	31/12/2020
Net growing area (in thousands of square meters)	10.5	10.5
Estimate net yield as of the reporting date (tons) (1)	2.3	2.1
Estimated net selling price (NIS per gram) (2)	12-19	12-19
Estimated ratio of products which will be sold as inflorescence (in percent) (3)	85%	85%
Estimated ratio of products which will be sold as oil (in percent) (3)	15%	15%
Estimated growing cycle length (in weeks) (4)	13-15	13-15
Estimated growing cycle completion rate (in percent) (5)	18%	15%
Proportion of plants which do not reach the harvesting stage	8%	8%

- (1) According to the number of seedlings as of the end of the reporting period
- (2) According to the price range of the Company's existing products as of the end of the reporting period
- (3) The Company's estimate regarding the future ratio of sales
- (4) In accordance with the Company's experience, and according to the strains which exist as of the reporting date
- (5) By planting date vs. growing cycle length
- B. Below is a sensitivity analysis on the fair value of the biological assets (in NIS thousands) in respect of a 10% increase in each of the following variables:

	<u>31/03/2021</u>	<u>31/12/2020</u>
Average selling price	476	315
Proportion of oil products	36	27
Proportion of plants which do not reach the harvesting	(416)	(394)

Note 7 - Investments in Financial Assets Mesured at Fair Value Through Profit or Loss:

A. As of March 31, 2021 and as of December 31, 2020, the Company holds 3,840,617 shares of XTL Biopharmaceuticals Ltd. (hereinafter: "XTL"), which constitute 0.75% of XTL's issued and paid-up capital.

As of the end of the reporting period, the Controlling Shareholder holds 24.95% of XTL shares.

The fair value of these shares as of the end of the reporting period was estimated based on the quoted share price (level 1) as XTL is a publically traded company listed in the Tel-Aviv stock exchange.

The fair value and changes in securities which were classified "Financial assets mesured at fair value through profit or loss" during the reporting periods was as follows:

	March 2021	December 2020	
	NIS in thousands		
Balance as of January 1,	376	177	
Changes in fair value carried to the statement of income	(31)	199	
Balance as of March 31,	345	376	

B. The Company's investments in biomed companies are revalued at fair value through profit and loss. The fair value is determined according to valuations, which are mostly performed using the OPM method.

March 31		
2021	2020	
NIS in thousands		
-		
3,336	3,141	
3,336	3,141	
	2021 NIS in tho	

Note 8 - Operating segment data:

Reconciliation of operating segment data include cancellation of assets of the cannabis segment, addition of the investment in accordance with the equity method, and addition of assets and liabilities which were not attributed to segments.

	NIS in thousands*			
	Cannabis	Biomed	Reconciliatio	_
	segment	segment	ns	Total
Period ended March 31,				
2021				
External revenue	33,051	-	-	33,051
Segment profit (loss)	7,552	164	-	7,716
General and administrative expe	enses not attribut	able to segment	ts	(2,600)
Other expenses, net				<u> </u>
Operating loss				5,116
Segment assets	104,721	3,681	194,477	342,877
Segment liabilities	40,619	-	3,335	43,955

	NIS in thousands*				
	Cannabis	Biomed	Reconciliatio		
	segment	segment	ns	Total	
Year ended December 31, 2020					
External revenue	65,035	-	-	65,035	
Segment profit (loss)	14,250	(37,195)	-	(22,945)	
General and administrative expo Other expenses, net	enses not attributa	able to segmen	ts	(10,892) (4,563)	
Operating loss				(38,400)	
Segment assets Segment liabilities	114,559 23,935	3,517	208,194 10,227	326,270 34,162	
	NIS in thousands*				
	Cannabis	Biomed	Reconciliatio		
	segment	segment	ns	Total	
Period ended March 31, 2020					
External revenue	4,259	-	-	4,259	
Segment profit (loss)	(1,606)	(39,350)	-	(40,956)	
General and administrative experience Other expenses, net	enses not attributa	able to segmen	ts	(3,301) (3,127)	
Operating loss			<u></u>	(47,209)	
Segment assets Segment liabilities	53,975 63,690	737	185,924 (35,840)	240,636 27,850	
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Note 9 - <u>Subsequent events:</u>

- a. On April 1, 2021, the general assembly approved an increase of the Company's registered capital and a reverse split of the issued capital of the Company at the ratio of 1:4.44926 so that the Company's issued shares subsequent to the reverse split is 27,021,100.
- b. On April 23, 2021, the company's shares were listed on the TSX (first trade commenced on April 26th) and by fulfillment of the condition the Transaction was closed, and the SPAC combined with the Company. As part of the Transaction, the company raised total funds of 182 million NIS (gross before expenses). As part of the Transaction, the Company issued 15,650,280 ordinary shares to the SPAC and the PIPE investors.
- c. On April 27, 2021, the Company issued to Mr. Alexander Rabinovich 224,756 options to purchase 224,756 ordinary shares of Intercure. The options were granted following the General Assembly from August 2019 as part of Canndoc acquisition transaction and as approved by the Company's general assembly on April 1, 2021 as part of the Transaction.
