



Translation of Immediate Report Filed by Elron on June 20, 2022 with the Israeli Securities

Authority

Re: CartiHeal – Amendment of Sale Agreement

Further to Section 23, and in particular Section 23.15, of “Part I” in Elron Ventures Ltd’s (“Elron” or the “Company”) annual periodic report for 2021 with regard to the investment and option transaction for the sale of CartiHeal (2009) Ltd. (“CartiHeal”) to Bioventus LLC (“Bioventus” or the “Purchaser”) (the “Original Agreement”) (Ref No. 2022-01-024498) and further to Section 4.2 of “Part I” in Elron’s quarterly report for the first quarter of 2022 (Ref No. 2022-01-047829), which are incorporated herein by reference, the Company hereby updates that the parties signed an amendment to the Original Agreement (the “Amended Agreement”) in which the parties reached the following agreements (the “Transaction”):

- The aggregate consideration of the Transaction remains unchanged in comparison to the Original Agreement and will amount to a total of up to \$500 million to all the CartiHeal shareholders (including Bioventus’ shares in CartiHeal which constitutes approximately 10% of CartiHeal’s fully diluted share capital), consisting of \$350 million (Elron’s share is approximately \$92 million) which will be paid, in part, in installments bearing an 8% annual interest rate (as detailed below), and contingent consideration in the amount of \$150 million (Elron’s share is approximately \$37 million).
- The sales milestone that was defined in the Original Agreement as the milestone for the contingent consideration was reduced such that it will occur on the date when the Agili-C sales together with other revenues deriving from commercialization of other CartiHeal technologies will generate revenues of at least \$75 million over a period of 12 consecutive months instead of the \$100 million revenues that were set as the milestone in the Original Agreement.
- In addition, the mechanism for the financial adjustments between the parties was amended such that Bioventus will bear transaction expenses and certain financial adjustments of approximately \$7 million which, under the Original Agreement, was to be borne by the sellers, this is in addition to the Transaction consideration.

Details of the Transaction consideration:

The Transaction consideration will be received in accordance with the schedule set forth below (the amounts are in principal terms, whereas to payments following the immediate consideration an 8% annual interest will be added from the date of the Transaction’s closing until their payment):

- Immediate consideration – by the closing date, the sellers will receive \$100 million (Elron’s share is approximately \$33 million).
- \$50 million will be received by July 1, 2023 (Elron’s share is approximately \$13.5 million).
- \$50 million will be received by September 1, 2023 (Elron’s share is approximately \$13.5 million).
- \$25 million will be received by January 1, 2025 (Elron’s share is approximately \$7 million).
- \$25 million will be received by January 1, 2026 (Elron’s share is approximately \$7 million).
- \$65 million will be received by January 1, 2027 (Elron’s share is approximately \$18 million).



Interest at the rate of 8% per year will be added to the aforementioned unpaid sums and will be paid once a year on the unpaid balance of the consideration

Pursuant to the Amended Agreement, there is a possibility of making prepayments of said payments, subject to CartiHeal's compliance with its operating plan, which includes, inter alia, the advancement of the processes required to obtain an insurance reimbursement code, the receipt of the code and the performance of commercial implants in patients.

In addition to the aforementioned payments which are not contingent, the sellers are entitled to contingent consideration of \$150 million as stated above (Elron's share of the contingent consideration is approximately \$37 million).

Collateral

In order to secure the Transaction consideration, a first ranking fixed lien will be registered in favor of the sellers, on CartiHeal's shares and its intellectual property rights (IP) and a first ranking floating lien will be registered on all CartiHeal's assets until completion of the consideration. Delay or breach of any payment of the Transaction payments will cause the entire unpaid consideration to become immediately due and payable and will entitle the sellers to all the remedies under the Agreement including the return of CartiHeal shares to the sellers (for this purpose, the CartiHeal shares will be deposited with an escrow agent until completion of the consideration) and/or the realization of the abovementioned liens.

Additional Terms

The Purchaser undertook to continue to maintain CartiHeal as a separate operational and legal entity at least until the completion of the entire non-contingent consideration. This includes the Purchaser's commitment to invest a minimum of \$20 million in CartiHeal and the Purchaser also undertook to continue to employ most of CartiHeal's key employees until completion of the entire non-contingent consideration. In addition, the sellers are entitled to appoint an observer on their behalf to the board of directors of Bioventus and CartiHeal.

Pursuant to the Transaction, the Purchaser is entitled to certain indemnities from the sellers in connection with the Transaction, as is customary in such transactions but unlike the Original Agreement, the sellers will not make a deposit in escrow to secure these indemnities.

The \$50 million escrow deposit, which the Purchaser deposited pursuant to the Original Agreement to secure completion of the Transaction, was released from escrow at the time of signing on the Amended Agreement and will be distributed to the sellers, as part of the immediate consideration. To the extent that the Transaction will not be completed for any reason, such amount will be transferred, as compensation, to CartiHeal and its shareholders (out of this sum, \$20 million will be transferred to CartiHeal, and \$30 million will be transferred to CartiHeal's shareholders). In addition, all CartiHeal shares held by Bioventus will be forfeited and the parties will not have any further assertion or claim in connection with the Transaction or its cancellation.



The completion of the Transaction is expected to be completed during July, 2022 and is still subject to occurrence of closing conditions customary for transactions of this nature.

There is no certainty as to the completion of the Transaction and the timing thereof.

Elron holds approximately 25% of the share capital of CartiHeal, on a fully diluted basis. As of March 31, 2022, the carrying amount of Elron's investment in CartiHeal in Elron's financial statements was approximately \$0.5 million. Upon completion of the Transaction the Company is expected to recognize a gain with respect to the expected receipts from the non-contingent consideration (capitalized as of the date of the completion of the Transaction) and the value of the contingent consideration as will be estimated.

Forward looking information warning: The above forecast data and estimates are forward-looking in nature, as defined in the Israel Securities Law, 5728- 1968, and are based on Elron's and CartiHeal's estimations, as of the reporting date, in relation to information regarding future events, the occurrence of which is uncertain and is not under the exclusive control of Elron and CartiHeal, in particular, in relation to the closing conditions of the Transaction and the execution of the Transaction (including in connection with the contingent consideration), the satisfaction of which depends on parties to the Transaction and other factors which could lead to a different result or to not closing the Transaction.

The reason why the submission of the report was delayed:

The report regarding the discussions with Bioventus to amend the Original Agreement was delayed in accordance with Regulation 36(b) of the Regulations due to the assessment of Elron and CartiHeal, which was based, inter alia, on information provided to them by Bioventus, that prior disclosure of the information could harm contacts with Bioventus and their results or adversely affect the Transaction.