



MERCHANTS' NATIONAL PROPERTIES, INC.
10 Grand Central, 155 East 44th Street, New York, NY 10017

ISSUER INFORMATION

Title and class of security:	Common Shares (\$1 par value)
Transfer Agent:	Merchants' National Properties, Inc. 10 Grand Central 155 East 44 th Street New York, NY 10017
President and Chief Executive Officer:	Craig M. Deitelzweig (Director)
Board of Directors:	James M. Better (Chairman) Leonard S. Gruenberg Mark Magowan James Magowan Matthew Maguire Richard Schosberg James Stern John Usdan
Issuer's telephone number:	(212) 557-1400

Number of shares outstanding of common stock as of May 20, 2022: 91,637



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FINANCIAL INFORMATION

The information furnished in the accompanying consolidated balance sheets and related consolidated statements of operations, changes in stockholders' equity and cash flows reflect all adjustments, consisting solely of normal and recurring adjustments that are, in management's opinion, necessary for a fair and consistent presentation of the aforementioned consolidated financial statements.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained in this letter and the attached report of Merchants' National Properties, Inc., and Subsidiaries ("MNP") may be considered forward-looking statements. Additionally, MNP or the executive officers on MNP's behalf, may from time to time make forward-looking statements in reports and other documents or in connection with written or oral statements made to the press, potential investors, or others.

Forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "continue," "anticipate" or other similar words. However, the absence of these or similar words or expressions do not mean that a statement is not forward-looking. Forward-looking statements are not guarantees of performance and are based on certain assumptions. Forward-looking statements may include the discussion of future expectations or description of plans and strategies and may contain projections of results of operations or of financial condition or other forward-looking information. Expected future net income (loss) depends on many factors including among others expected uses of cash generated from operations; expected sources and adequacy of capital resources and liquidity. Any deviation from these assumptions may lead to fluctuations in future net income (loss).

Any such forward-looking statements are based on a number of assumptions involving judgments and are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from our historical experience and our present expectations. Accordingly, readers are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this report. MNP makes no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this report, and MNP does not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.



MERCHANTS' NATIONAL PROPERTIES, INC.
10 Grand Central, 155 East 44th Street, New York, NY 10017

May 20, 2022

To our Stockholders:

Attached are Merchants' National Properties, Inc.'s ("MNP" or the "Company") unaudited consolidated financial statements for the three months ended March 31, 2022 and 2021. These statements have been filed with the OTC Markets.

Financial Highlights:

Loss per share for the three months ended March 31, 2022 was \$82.30. Earnings per share for the three months ended March 31, 2021 were \$66.84. Excluding the unrealized gain/loss on marketable securities, net of deferred taxes, earnings per share for the three months ended March 31, 2022 and 2021 were \$14.18 and \$14.64, respectively.

For the three months ended March 31, 2022, stockholders' equity decreased by \$7.6 million with a corresponding decrease in book value per share to \$2,243 at March 31, 2022 from \$2,326 at December 31, 2021. The Company paid \$25.00 per share in dividends in spring of 2022 versus \$20.00 per share in spring of 2021.

No shares were purchased by MNP during the three months ended March 31, 2022 or 2021. As of March 31, 2022 and 2021, 91,637 shares of common stock were outstanding.

For the three months ended March 31, 2022, the Company reported grossed-up rental and other income of \$13.2 million, as compared to \$12.0 million for the three months ended March 31, 2021. Similarly, for the three months ended March 31, 2022, the Company reported grossed-up operating income of \$5.9 million, as compared to \$5.8 million for the three months ended March 31, 2021 and grossed-up loss before interest, taxes, depreciation and amortization ("EBITDA") of \$3.8 million for the three months ended March 31, 2022 (largely as a result of the decrease in the value of marketable securities of \$11.3 million), as compared to grossed-up earnings of \$12.8 million for the three months ended March 31, 2021. Finally, for the three months ended March 31, 2022, the Company reported a grossed-up net loss of \$7.5 million, as compared to a net income of \$6.1 million for the three months ended March 31, 2021.

Accounting principles generally accepted in the United States of America ("GAAP") require unrealized gains and losses of marketable securities to be included in net income. This standard, combined with COVID-19 fueled volatility in the stock market, has driven substantial swings in earnings during the reporting periods. As a result of these influences, we believe the most useful metric for assessing our performance is "Operating Income As Grossed-Up."

The table on the following page provides a side-by-side comparison of MNP's March 31, 2022 vs. March 31, 2021 consolidated statements of operations in accordance with GAAP and "As Grossed-Up", a non-GAAP measure, which provides more transparency to MNP's share of the underlying assets' revenues and expenses which flow up to MNP from various real estate investments.

INCOME STATEMENT OVERVIEW
GAAP vs. Underlying Property Performance

	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021	
	As Unaudited	As Grossed-Up	As Unaudited	As Grossed-Up
Rental and other income	\$ 4,392,410	\$ 13,176,098	\$ 3,434,379	\$ 12,008,297
Equity in earnings of real estate ventures	1,710,087	-	1,007,862	-
Operating expenses	(3,253,475)	(7,322,107)	(2,473,559)	(6,218,070)
Operating income	2,849,022	5,853,991	1,968,682	5,790,227
Investment income	276,906	279,333	252,223	257,222
Non-recurring gains	-	490,525	-	- (A)
Unrealized (loss) gain on marketable securities	(11,335,080)	(11,335,080)	6,132,164	6,132,164 (B)
Unrealized gain on swap contracts	823,643	902,525	677,762	598,395 (C)
EBITDA	(7,385,509)	(3,808,706)	9,030,831	12,778,008
Financing expense	(386,613)	(1,715,534)	(371,609)	(1,765,957)
Depreciation and amortization expense	(775,729)	(2,922,649)	(470,396)	(2,719,184)
Income taxes	(958,590)	(1,059,552)	(629,148)	(733,189)
Income taxes - deferred	2,084,216	2,084,216	(1,295,964)	(1,295,964)
Net (loss) income	(7,422,225)	(7,422,225)	6,263,714	6,263,714
Noncontrolling interests in loss of consolidated subsidiaries	(119,365)	(119,365)	(139,007)	(139,007)
Net (loss) income attributable to Merchants' National Properties, Inc.	\$ (7,541,590)	\$ (7,541,590)	\$ 6,124,707	\$ 6,124,707

The following is a description of some of the factors which impacted the As Unaudited and As Grossed-Up net (loss) income for the three months ended March 31, 2022 and 2021, respectively.

- (A) The 2022 non-recurring gains represent the Company's share of capital gains on the disposition of its interest in real estate investments.
- (B) Including the unrealized gains and losses in marketable securities, as required under GAAP, decreased income before taxes by \$11.3 million for the three months ended March 31, 2022. For the three months ended March 31, 2021, this change resulted in an increase in income before taxes of \$6.1 million, a net year-over-year decrease in income before taxes of \$17.4 million.
- (C) In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. Changes in fair value will affect either accumulated other comprehensive income or loss, which is a component of equity, if the derivative qualifies as a hedge and is effective, or net income or loss, if the derivative does not qualify as a hedge or if the hedge is ineffective. For the three months ended March 31, 2022 and 2021, this change in fair value has resulted in increasing reportable GAAP income before taxes by \$824 thousand and \$678 thousand, respectively.

Respectfully submitted,

Craig M. Deitelzweig
President, Chief Executive Officer and Director

James M. Better
Chairman of the Board of Directors

**MERCHANTS' NATIONAL PROPERTIES, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2022 AND 2021

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

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MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2022 (unaudited)	December 31, 2021 (audited)
ASSETS		
Rental properties, net	\$ 80,501,799	\$ 56,468,474
Marketable securities	63,873,871	75,208,951
Investments in real estate ventures	113,208,749	119,818,866
Intangible asset available for sale	753,219	753,219
Cash and cash equivalents	19,300,953	17,398,949
Restricted cash	4,233,782	1,747,272
Receivables:		
Loans, real estate ventures	1,818,750	1,800,000
Affiliated real estate ventures	-	775,972
Employees	2,483,779	1,385,019
Related parties	3,801,543	4,006,002
Tax refund	37,554	37,554
Deferred rent	2,165,429	2,086,310
Other	198,945	841,629
Tenant security deposits in escrow	475,990	479,263
Interest rate swaps	327,011	-
Prepaid expenses and other assets, net of accumulated amortization of \$907,069 and \$807,942 in 2022 and 2021, respectively	1,922,072	1,993,706
In-place leases, net of accumulated amortization of \$101,116 in 2022	6,622,414	-
Prepaid income taxes	1,240,453	1,296,589
Deferred tax assets	2,478,563	2,480,332
Total assets	\$ 305,444,876	\$ 288,578,107
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 5,641,317	\$ 2,265,969
Below-market leases, net of accumulated amortization of \$26,300 in 2022	2,306,603	-
Income taxes payable	852,444	197,425
Security deposits	716,022	592,263
Interest rate swaps	-	496,632
Mortgages payable, less unamortized debt issuance costs of \$469,552 and \$336,879 in 2022 and 2021, respectively	44,664,751	28,398,545
Deferred tax liabilities	32,363,851	34,449,836
Total liabilities	86,544,988	66,400,670
Stockholders' Equity		
Common stock, \$1 par value; 187,000 shares authorized, 105,199 shares issued (shares outstanding, 91,637 and 91,637 in 2022 and 2021, respectively)	105,199	105,199
Additional paid-in capital	1,146,317	1,146,317
Retained earnings	219,708,274	227,336,665
Treasury stock, at cost (13,562 and 13,562 shares in 2022 and 2021, respectively)	(15,395,875)	(15,395,875)
Total stockholders' equity	205,563,915	213,192,306
Noncontrolling interests	13,335,973	8,985,131
Total liabilities and stockholders' equity	\$ 305,444,876	\$ 288,578,107

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	March 31,	
	2022 (unaudited)	2021 (unaudited)
Revenues		
Rental revenues	\$ 2,042,797	\$ 1,564,541
Management fees	873,593	743,911
Leasing commissions	678,959	362,980
Development and buildout fees	182,474	225,074
Other revenues	614,587	537,873
Total revenues	4,392,410	3,434,379
Operating Expenses		
Real estate taxes	348,152	296,130
Depreciation and amortization	775,729	470,396
Other operating expenses	295,330	128,682
Financing expenses	386,613	371,609
Total operating expenses	1,805,824	1,266,817
Net revenues from rentals and other income	2,586,586	2,167,562
Equity in earnings from real estate ventures, net	1,710,087	1,007,862
Investment income	276,906	252,223
Unrealized (loss) gain on marketable securities	(11,335,080)	6,132,164
Unrealized gain on interest rate swaps	823,643	677,762
Net (loss) income before general and administrative expenses and other costs and income tax (benefit) expense	(5,937,858)	10,237,573
General and administrative expenses and other costs		
Professional fees	141,958	42,108
Salaries and other general expenses	2,468,035	2,006,639
Total general and administrative expenses and other costs	2,609,993	2,048,747
Net (loss) income before income tax (benefit) expense	(8,547,851)	8,188,826
Income tax (benefit) expense	(1,125,626)	1,925,112
Net (loss) income	(7,422,225)	6,263,714
Noncontrolling interests in loss of consolidated subsidiaries	(119,365)	(139,007)
Net (loss) income attributable to Merchants' National Properties, Inc.	\$ (7,541,590)	\$ 6,124,707
Basic and diluted earnings per share	\$ (82.30)	\$ 66.84
Weighted average number of common shares outstanding		
Basic and diluted	91,637	91,637

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2022 AND 2021

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Treasury Stock</u>		<u>Non-</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Shares</u>	<u>Amount</u>	<u>Controlling</u>	
			<u>Capital</u>				<u>Interests</u>	<u>Equity</u>
Balance, January 1, 2022	105,199	\$ 105,199	\$ 1,146,317	\$ 227,336,665	13,562	\$ (15,395,875)	\$ 8,985,131	\$ 222,177,437
Net (loss) income	-	-	-	(7,541,590)	-	-	119,365	(7,422,225)
Consolidation of Orange Syndicate*	-	-	-	(86,801)	-	-	3,135,979	3,049,178
Capital contributions	-	-	-	-	-	-	1,095,498	1,095,498
Balance, March 31, 2022 (unaudited)	105,199	\$ 105,199	\$ 1,146,317	\$ 219,708,274	13,562	\$ (15,395,875)	\$ 13,335,973	\$ 218,899,888
Balance, January 1, 2021	105,199	\$ 105,199	\$ 1,146,317	\$ 207,325,200	13,562	\$ (15,395,875)	\$ 9,624,764	\$ 202,805,605
Net income	-	-	-	6,124,707	-	-	139,007	6,263,714
De-consolidation of Herald*	-	-	-	611,111	-	-	-	611,111
Capital distributions	-	-	-	-	-	-	(884,369)	(884,369)
Balance, March 31, 2021 (unaudited)	105,199	\$ 105,199	\$ 1,146,317	\$ 214,061,018	13,562	\$ (15,395,875)	\$ 8,879,402	\$ 208,796,061

* See Note 1 for description of the transaction

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 31,	
	2022 (unaudited)	2021 (unaudited)
Cash flows from operating activities		
Net (loss) income	\$ (7,422,225)	\$ 6,263,714
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	575,486	399,907
Amortization of deferred leasing costs	99,127	70,489
Amortization of debt issuance costs included in financing expenses	28,281	24,025
Amortization of below-market leases	(26,300)	-
Amortization of in-place leases	101,116	-
(Benefit) provision for deferred taxes	(2,084,216)	1,295,964
Accrued interest on loans receivable, real estate ventures	(18,750)	(18,750)
Equity in earnings of investments in real estate ventures, net	(1,710,087)	(1,007,862)
Unrealized gain on interest rate swaps	(823,643)	(677,762)
Unrealized loss (gain) on marketable securities	11,335,080	(6,132,164)
Changes in assets and liabilities		
Receivables - affiliated real estate ventures	775,972	924,754
Receivables - employees	(1,098,760)	661,687
Receivables - related parties	204,459	(2,326,804)
Receivables - tax refund	-	2,000
Receivables - deferred rent	(79,119)	(143,447)
Receivables - other	642,684	(323,174)
Prepaid expenses and other assets	(27,493)	(106,543)
Prepaid income taxes	56,136	371,075
Accounts payable and accrued expenses	3,371,168	2,679,514
Income taxes payable	655,019	80,727
Security deposits	123,759	-
Net cash provided by operating activities	4,677,694	2,037,350
Cash flows from investing activities		
Contributions to investments in real estate ventures	(2,931,588)	(1,340,828)
Distributions from investments in real estate ventures	2,912,944	1,332,586
Purchase of rental properties	(17,607,232)	(2,504,979)
Net proceeds from sale of investment interest in real estate venture	-	12,407,424
Net cash (used in) provided by investing activities	(17,625,876)	9,894,203
Cash flows from financing activities		
Payments of line of credit, net	-	(21,500,000)
Capital contributions from noncontrolling interests, net	1,095,498	-
Principal payments of mortgages payable	(221,121)	(202,914)
Proceeds from mortgage payable	16,620,000	-
Debt issuance costs	(160,954)	-
Net cash provided by (used in) financing activities	17,333,423	(21,702,914)
Net increase (decrease) in cash and cash equivalents, restricted cash and tenant security deposits in escrow	4,385,241	(9,771,361)
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of period	19,625,484	25,519,565
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of period	\$ 24,010,725	\$ 15,748,204

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 31,	
	2022 (unaudited)	2021 (unaudited)
Reconciliation of cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of period		
Cash and cash equivalents	\$ 17,398,949	\$ 23,564,429
Restricted cash	1,747,272	1,519,570
Tenant security deposits in escrow	479,263	435,566
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of period	\$ 19,625,484	\$ 25,519,565
Reconciliation of cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of period		
Cash and cash equivalents	\$ 19,300,953	\$ 14,566,010
Restricted cash	4,233,782	746,628
Tenant security deposits in escrow	475,990	435,566
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of period	\$ 24,010,725	\$ 15,748,204
Supplemental cash flow disclosures		
Interest paid	\$ 423,673	\$ 357,319
Supplemental non-cash investing and financing activities		
Reclassification of assets, liabilities, noncontrolling interests and equity due to consolidation of investment in joint venture		
Rental properties	7,001,579	-
Investments in real estate ventures	(8,338,848)	-
In-place leases	6,723,530	-
Accounts payable and accrued expenses	(4,180)	-
Below-market leases	(2,332,903)	-
Noncontrolling interests	(3,135,979)	-
Equity	86,801	-
Reclassification of assets, liabilities, noncontrolling interests and equity due to de-consolidation of investment in joint venture		
Rental properties, net of accumulated depreciation of \$362,322	-	(45,297,865)
Investments in real estate ventures	-	4,184,047
Receivables - other	-	75,304
Prepaid expenses and other assets	-	(28,035)
Accounts payable and accrued expenses	-	2,739,582
Mortgage payable, net of unamortized debt issuance costs of \$437,621	-	25,646,285
Noncontrolling interests	-	884,369
Equity	-	(611,111)

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - ORGANIZATION

Merchants' National Properties, Inc. ("Merchants"), Guest Realty Company ("Guest"), Marx Realty & Improvement Co. Inc. ("Marx"), Maryland Stores Corporation ("Maryland"), Rier Realty Co., Inc. ("Rier"), East Putnam Ave. I, LLC ("Putnam"), The M&B Building Owners II, LLC ("Bethpage"), Brahmin Realty Associates, LLC ("Brahmin"), Madison Syndicate ("Madison"), University Plaza Joint Venture LLC ("University"), Athens Joint Venture LLC ("Athens"), Bell Blvd. Partners ("Bell"), Herald Owners, LLC ("Herald"), Lenox Avenue I, LLC ("Lenox") and MNP 2121 Wisconsin Ave LLC ("MNP 2121") own, manage, develop and lease various commercial real estate properties and invest in real estate ventures in the United States (collectively, these entities are referred to as the "Company"). Guest, Marx, Maryland and Rier (the "Acquired Entities") were acquired in the transaction discussed below.

On November 21, 2006, Merchants acquired certain shares of stock and partnership interests in the Acquired Entities and other joint venture interests from the estate of a Merchants' former stockholder for a total cost of \$41,661,149 in cash. There were no significant liabilities assumed upon acquisition. The purchase price was allocated to the real estate and partnership interests based on their fair values. No goodwill or intangible assets were recorded.

On November 8, 2012, Putnam was formed to acquire property, which was developed into a commercial and residential project. Merchants owns 92.75% of Putnam.

On July 16, 2013, Bethpage was formed to acquire land for the purpose of net leasing or developing it into a commercial project. Merchants owns 95.70% of Bethpage.

In October 2014, Brahmin was formed to acquire a 50% tenancy-in-common interest in three real properties. Merchants owns 59.40% of Brahmin.

On September 11, 2015, Merchants acquired an additional 8.05% interest in the members' equity of University, which resulted in 57.88% interest in the members' equity of University.

During 2020, Merchants consolidated its investment in Athens pursuant to a Plan of Redemption and Partition whereby Merchants' ownership interest increased from 45.3332% to 90.6664%, when Athens took full ownership of the retail condominium unit at 819 7th Street NW, Washington, D.C. in exchange for its ownership interest in a commercial property in Pittsburgh, PA.

During 2020, Merchants consolidated its investment in Bell further to reflect the increase in its ownership interest in Bell from 33.25% to 66.5% after the acquisition of the fifth-floor commercial condominium unit at 819 7th Street NW, Washington, D.C.

On April 9, 2020, Merchants acquired a 10-story office building located in Washington, D.C. for approximately \$41 million. This property was acquired through a newly formed limited liability company, Herald, in which Merchants had a 95.01% ownership interest. In February 2021, Merchants entered into a joint venture with Herald Member LLC (the "Investor"), an affiliate of Iowa Public Employee's Retirement System ("IPERS"), managed by Invesco Advisors, Inc., whereby the Investor

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - ORGANIZATION (Continued)

acquired a 70% equity interest in Herald. The gain that was recognized on the retained interest in Herald by the Company was \$5,174,486. This gain is comprised of \$3,536,154 related to the gain on the sale of the Company's 70% interest in Herald and \$1,638,332 related to the gain on the write-up of Herald to fair value. The Company estimated the fair value of its retained 28.5% interest in Herald based on the fair value of the sale of the 70% interest to the Investor.

On February 2, 2022, Merchants acquired a 4-story office building, located at 2121 Wisconsin Avenue NW in Washington, D.C. ("Wisconsin"), for approximately \$27.7 million. This property was acquired through a newly formed tenancy-in-common ("TIC") between Lenox Avenue I, LLC owned by Orange Syndicate ("Orange"), with an 82% TIC interest and MNP 2121, with an 18% TIC interest. Orange acquired Wisconsin with the proceeds from the sale of its Miami, FL property as part of the Internal Revenue Code Section 1031-Exchange. In 2022, Merchants ownership interest in Orange increased from 48.5607% to 72.48%. Merchants' ownership interest in MNP 2121 is 52.25%. As a result, Merchants collectively owns 68.6172% of Wisconsin (59.2122% through Orange and 9.405% through MNP 2121).

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Merchants and its subsidiaries; Guest, a 100% owned subsidiary; Maryland, an 80% owned subsidiary; Marx, a 100% owned subsidiary; Rier, a 94.64% owned subsidiary; Putnam, a 92.75% owned limited liability company; Madison, a 52.93% owned partnership; Bethpage, a 95.70% owned limited liability company; Brahmin, a 59.40% owned limited liability company; University, a 57.88% owned limited liability company, Athens, a 90.667% owned limited liability company, Bell, a 66.5% owned partnership, Wisconsin, a 68.62% owned TIC interest and previously Herald, a 95.01% owned limited liability company. In view of the Investor's acquisition of 70% equity interest in Herald, effective February 26, 2021, Herald is no longer being consolidated by Merchants and it is accounted for on the equity method of accounting (Note 5). All significant intercompany accounts and transactions have been eliminated in consolidation.

Noncontrolling Interests

Accounting principles generally accepted in the United States of America ("GAAP") require that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of a company's balance sheet. In addition, the amounts attributable to the net income (loss) of these subsidiaries and affiliates are reported separately in the consolidated statements of operations and changes in stockholders' equity for all years presented.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The Company uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The most significant estimates and assumptions relate to depreciable lives, impairment of long-lived assets and the recovery of receivables. Actual results could differ from those estimates.

Rental Properties, Net

Real estate is recorded at cost. Maintenance and repairs are charged to operations at the time the expenditures are made, whereas betterments and improvements are capitalized. Upon the sale or other disposition of real estate, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Purchase Accounting

The Company allocates the purchase price of asset acquisitions to the various components of the acquisition based upon the relative fair value of each component, which may be derived from various observable or unobservable inputs and assumptions. In addition, the Company may utilize third party valuation specialists. These components typically include buildings, land and intangibles related to in-place leases and the Company estimates:

- the relative fair value of land and related improvements and buildings on an as-if-vacant basis,
- the market value of in-place leases based upon the Company's best estimate of current market rents and amortizes the resulting market rent adjustment into lease income,
- the value of costs to obtain tenants, including tenant allowances and improvements and leasing commissions and amortizes the resulting adjustment to amortization expense, and
- the value of lease income and recovery of costs foregone during a reasonable lease-up period, as if the space were vacant, and amortizes the resulting amount to amortization expense.

The relative fair value of a building is depreciated over the estimated remaining life of the acquired building or related improvements. The Company amortizes tenant improvements, in-place lease assets and other lease-related intangibles over the remaining life of the underlying leases. The Company also estimates the value of other acquired intangible assets, if any, which are amortized over the remaining life of the underlying related intangibles.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Place Leases

Amortization of acquired in-place leases for the three months ended March 31, 2022 was \$101,116 and is included as a component of amortization in the accompanying consolidated statements of operations. As of March 31, 2022, the amortization expense is as follows:

Year Ending December 31,	
2022	\$ 455,024
2023	606,698
2024	606,698
2025	606,698
2026	561,565
Thereafter	3,785,731
	<u>\$ 6,622,414</u>

Below-Market Leases

Amortization of acquired below-market leases for the three months ended March 31, 2022 was \$26,300 and is included as a component of rental revenues in the accompanying consolidated statements of operations. As of March 31, 2022, the amortization of below-market leases is as follows:

Year Ending December 31,	
2022	\$ 118,354
2023	157,804
2024	157,804
2025	157,804
2026	140,928
Thereafter	1,573,909
	<u>\$ 2,306,603</u>

Marketable Securities

Marketable securities, which consist of equity securities, are carried at fair value in the consolidated financial statements. Realized gains and losses are included in net income based on the specific identification method; unrealized holding gains and losses are included in the consolidated statements of operations.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Real Estate Ventures

Investments in unconsolidated affiliated companies, in which the Company has a less than 50% interest and significant influence, but not control, are accounted for using the equity method. Distributions declared but not paid are recorded as receivables from affiliated real estate ventures. On a periodic basis, management assesses whether there are any indicators that the carrying value of the Company's investments in real estate ventures may be impaired. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment. The Company's estimates of fair value for each investment are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for space, competition for tenants, changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the fair values estimated by management in its impairment analyses may not be realized. No impairment of the recoverability of the carrying amount of the Company's investments has occurred as of March 31, 2022 or 2021.

Intangible Asset Available-for-Sale

The intangible asset available for sale consists of a liquor license that is not amortized as it has an indefinite life. The Company reviews intangible assets with indefinite lives for impairment annually or more frequently if impairment indicators arise. As permitted under GAAP, the Company took a qualitative approach in determining whether it was more likely than not, that the intangible asset was impaired. To the extent, the qualitative factors indicate that there is more than a 50% likelihood that the intangible asset is impaired or when the qualitative approach is not used, the Company performs a quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, the Company recognizes an impairment loss in an amount equal to that excess. The liquor license has been classified as available for sale. No impairment provision was necessary at March 31, 2022 or 2021.

Long-Lived Assets

The Company reviews the carrying values of its long-lived assets, such as rental properties, whenever events or changes in circumstances indicate that the carrying values may no longer be appropriate. Recoverability of carrying values is assessed by estimating future net cash flows from the assets. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact management's assumptions as to rental rates, costs, holding periods or other factors that may result in changes in the Company's estimates of future cash flows. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result. No impairment was noted at March 31, 2022 or 2021.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company considers cash and cash equivalents to include cash on hand, cash in banks, and short-term investments in institutional money market funds with initial maturities of three months or less. Cash balances in banks in the United States of America are insured by the Federal Deposit Insurance Corporation subject to certain limitations. Cash balances in institutional money market funds are insured by the Securities Investor Protection Corporation subject to certain limitations.

Restricted Cash

Restricted cash represents funds held in escrow for tenant and capital improvements and leasing commissions as required by the lenders.

Debt Issuance Costs

Debt issuance costs represent amounts incurred in connection with obtaining debt financing. These costs are being amortized on the straight-line basis over the term of the related loan, which approximates the effective interest method. For the three months ended March 31, 2022 and 2021, amortization of deferred financing costs was \$28,281 and \$20,866, respectively. These amounts are included in financing expenses on the consolidated statements of operations.

Income Taxes

The Company files a combined income tax return for New Jersey, New York State and New York City except for Madison, Putnam, Bethpage, Brahmin, University, Athens and Bell. Merchants and Marx file a consolidated federal income tax return and separate income tax returns for all states except New York. Guest, Maryland and Rier file separate federal income tax returns and for all states except New York. Madison, Putnam, Bethpage, Brahmin, University, Athens, Bell, Herald, and Wisconsin file separate federal and state income tax returns.

The Company applies the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740: Income Taxes ("ASC Topic 740"). The Company files income tax returns in the U.S. federal jurisdiction and in various states.

The Company does not have any uncertain tax positions. As a result, there are no unrecognized tax benefits in the consolidated balance sheets. If the Company were to incur any interest and penalties in connection with income tax deficiencies, the Company would classify interest in the "interest expense" category and classify penalties in the "non-interest expense" category within the consolidated statements of operations.

Deferred Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenues derived from fixed lease payments are recognized on a straight-line basis over the non-cancelable period of the lease, together with renewal options that are reasonably certain of being exercised. All leases between the Company and the tenants of the properties are considered to be operating leases. Receivables from tenants are stated at the amount management expects to collect. Account balances are written off after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. No allowance was considered necessary at March 31, 2022 or 2021.

Management fees and development fees are recognized ratably over the period that the services are performed. Leasing commissions are recognized when the leases are executed. Asset acquisition/dispositions fees and mortgage financing fees are recognized when the transactions are entered into.

Sales of Real Estate

The Company accounts for sales of real estate under the full accrual method, whereby gain is not recognized until the collectability of the sales price is reasonably assured and the earnings process is virtually complete. When a sale does not meet such requirements, gain is deferred until the requirements for income recognition are met.

Depreciation

Properties are stated at cost. Depreciation of rental properties is computed using the straight-line method over the estimated useful lives of the assets.

Earnings Per Share

The Company computes basic earnings per share by dividing net income attributable to Merchants by the weighted average number of shares outstanding for the year. Diluted earnings per share are calculated utilizing the weighted average number of common shares outstanding adjusted for the effect of any common stock equivalents.

Fair Value Measurements

The Company follows the provisions of ASC Topic 820, "Fair Value Measurements and Disclosures", which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-derived valuations whose inputs or significant value drivers are observable.
- Level 3: Unobservable inputs are used when little or no market data is available.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (continued)

Financial assets measured at fair value on a recurring basis are summarized below:

March 31, 2022 (unaudited)				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 63,873,871	\$ -	\$ -	\$ 63,873,871

December 31, 2021 (audited)				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 75,208,951	\$ -	\$ -	\$ 75,208,951

The carrying values of cash and cash equivalents, restricted cash, receivables, and accounts payable and accrued expenses approximate their fair values due to their short-term nature. It was not practicable to reasonably estimate the fair value of the loans receivable from real estate ventures, line of credit and mortgages payable as there are no quoted market prices of similar products and management has not developed a valuation model necessary to make such estimates.

Recently Issued Accounting Pronouncements – Not Yet Adopted

In March 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-04, “Reference Rate Reform (Topic 848)”. ASU 2020-04 applies to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-14 is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of the adoption of ASU 2020-04 on the mortgages payable and is working with their lenders to determine the impact it will have on its debt and the consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements – Not Yet Adopted (continued)

In 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", for the recognition and presentation of lease assets and lease liabilities on the balance sheet. ASU 2016-02 calls for the disclosure of key information regarding leasing arrangements, particularly as it relates to operating leases. ASU 2016-02 now requires a lessee to recognize within the balance sheet, a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor is largely unchanged from that applied previously under GAAP, as the vast majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for the Company's year ending December 31, 2022 and requires a modified retrospective application. The Company is currently evaluating the impact of the adoption of this standard; however, it is not expected to have a material impact on the Company's consolidated financial statements.

Derivative Instruments

In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. Changes in fair value will affect either accumulated other comprehensive income or loss, which is a component of equity, if the derivative qualifies as a hedge and is effective, or net income or loss, if the derivative does not qualify as a hedge or if the hedge is ineffective.

The Company has a receive-variable (LIBOR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan on University (Note 9). The interest rate swap agreement was effective as of October 1, 2015, matures on October 1, 2025, and had an original notional amount of \$9,000,000 with a notional amount of \$7,458,476 and \$7,527,167 at March 31, 2022 and December 31, 2021, respectively. The notional amount is reduced based on the terms of the agreement. The interest rate swap agreement is intended to hedge the Company's exposure to possible increases in interest rates and the resulting increase in cash outflows.

The Company has a receive-variable (LIBOR), pay-fixed (1.64%) interest rate swap agreement related to its variable rate loan on West 181st Street (Note 9). The interest rate swap agreement was effective as of August 13, 2019, matures on September 4, 2029, and had an original notional amount of \$8,625,000 with a notional amount of \$8,267,024 and \$8,327,962 at March 31, 2022 and December 31, 2021, respectively. The notional amount is reduced based on the terms of the agreement. The interest rate swap agreement is intended to hedge the Company's exposure to possible increases in interest rates and the resulting increase in cash outflows.

The interest rate swaps were not designated as cash flow hedges and, accordingly, changes in fair value are recognized in earnings. As of March 31, 2022 and 2021, the Company recorded a gain of \$823,643 and a \$677,762, respectively, in the fair value of the interest rate swap agreements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties

The Company is subject to risks incidental to the ownership, development and management of real estate. These include the risks normally associated with the changes in the general economic climate, trends in the real estate industry, availability of land for development, changes in tax laws and interest rates, availability of financing, and the potential liability under environmental and other laws.

The Company's investments include marketable equity securities. Due to the risks associated with equity securities, it is at least reasonably possible that changes in market conditions in the near term could materially affect the value of investments reported in the consolidated financial statements.

Subsequent Events

These consolidated financial statements were approved by management and available for issuance on May 20, 2022. Management has evaluated subsequent events through this date.

3 - RENTAL PROPERTIES, NET

Rental properties consist of the following:

	March 31, 2022 (unaudited)	December 31, 2021 (audited)
Land	\$ 29,367,036	\$ 23,087,855
Buildings and improvements	57,825,099	42,178,631
Furniture and fixtures	1,103,901	1,103,901
Equipment	2,923,750	240,588
Impairment of land and building	(1,337,269)	(1,337,269)
	89,882,517	65,273,706
Less: accumulated depreciation	9,380,718	8,805,232
	\$ 80,501,799	\$ 56,468,474

Depreciation expense for the three months ended March 31, 2022 and the year ended December 31, 2021 was \$575,486 and \$1,617,345, respectively.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 - MARKETABLE SECURITIES

Cost and fair value information for common stock classified as available-for-sale securities are as follows:

	March 31, 2022 (unaudited)	December 31, 2021 (audited)
Cost	\$ 897,173	\$ 897,173
Fair value	63,873,871	75,208,951
Net unrealized gain	\$ 62,976,698	\$ 74,311,778

There were no sales of marketable securities during the three months ended March 31, 2022 or the year ended December 31, 2021.

5 - INVESTMENTS IN REAL ESTATE VENTURES

The Company holds investments in various real estate ventures. Changes in the Company's investments in real estate ventures for the three months ended March 31, 2022 and the year ended December 31, 2021, respectively, are as follows:

	March 31, 2022 (unaudited)	December 31, 2021 (audited)
Balance, beginning of period	\$ 119,818,866	\$ 109,293,139
Contributions	2,931,588	3,833,461
Distributions	(2,912,944)	(9,684,109)
Consolidation of Orange Syndicate	(8,338,848)	-
De-consolidation of Herald *	-	5,449,476
Equity in earnings, net	1,710,087	10,926,899
Net investments, end of period	\$ 113,208,749	\$ 119,818,866

* Represents the reclassification of rental properties, net to investments in real estate ventures because of the de-consolidation of Herald from the Company's consolidated financial statements effective February 2021 (Note 1).

As a result of the de-consolidation of Herald from the Company's consolidated financial statements effective February 26, 2021, the current year balance sheet no longer includes the assets and liabilities related to Herald.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

The following information summarizes the total assets, liabilities, revenues and expenses of the investees in the aggregate prior to allocating the Company's share indicated by the percentages listed on the following page:

	March 31, 2022 (unaudited)	December 31, 2021 (unaudited)
Assets, net of accumulated depreciation and amortization of \$251,576,594 and \$245,797,623	\$ 585,992,683	\$ 585,356,959
Liabilities	352,610,221	348,704,822
Equity	\$ 233,382,462	\$ 236,652,137

	Three Months Ended March 31, 2022 (unaudited)	Three Months Ended March 31, 2021 (unaudited)
Rental and other revenues	\$ 31,951,909	\$ 28,770,878
Net gains on disposal of rental property	2,220,361	-
Total income	34,172,270	28,770,878
Direct operating expenses	15,893,827	13,779,125
Financing expenses	3,857,440	3,897,425
Depreciation and amortization expense	6,731,168	6,441,160
Income taxes	449,421	446,108
Total expenses	26,931,856	24,563,818
Net income	\$ 7,240,414	\$ 4,207,060

The investments in real estate ventures on the accompanying consolidated balance sheets are accounted for by the Company using the equity method. The above amounts, which are maintained on the historical cost basis and represent 100% of the assets (net of accumulated amortization and depreciation where applicable), liabilities, equity, revenues and expenses of the real estate joint ventures, have not been audited, except one of the investments as noted in the independent auditors' 2021 report. The assets and liabilities of this investment in real estate venture are approximately 34% and 33%, respectively, of the total assets and liabilities above at March 31, 2022 and 34% and 34%, respectively, at December 31, 2021. The net income of this investment in real estate venture is approximately 60% and 80% of the total net income above for the three months ended March 31, 2022 and 2021, respectively.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Investments in real estate ventures consist of the following:

Investee	% Of Ownership (a)	
	March 31, 2022	December 31, 2021
135 Bowery	9.0000%	9.0000%
430 Park Avenue Syndicate (b)	7.0828	7.0828
532 Madison Syndicate	10.4099	10.4099
708 Third Avenue Holdings, LLC (c)	35.7135	35.7135
Arlington Joint Venture (f)	0.0000	18.1875
Avon Joint Venture	40.5938	40.5938
BSC Empire	37.6214	37.6214
Belle Haven Realty LLC	42.5700	42.5700
Bellflower Joint Venture	17.4167	17.4167
Bey Lea Joint Venture (b)	9.1366	9.1366
Boston Syndicate (d)	31.4393	31.4393
Dollar Land Associates, LLC	37.6214	37.6214
East Rutherford Joint Venture	0.7500	0.7500
Farmingville Associates (b)	10.6223	10.6223
Fort Lee Joint Venture	30.0000	30.0000
Herald Owners, LLC (e)	28.5030	28.5030
Ithaca Joint Venture	21.0000	21.0000
Joseph E. Marx Company, Inc. ("JEM")	23.3330	23.3330
Knights Road Shopping Center LP (b)	11.4044	11.4044
Louisville Syndicate	49.3097	49.3097
Marlton Joint Venture	34.9167	34.9167
Newbury Street Partners (b)	18.7084	18.7084
Ocean County Ventures (b)	30.0981	30.0981
Orange Syndicate (b) (g)	0.0000	48.5607
Pequanock Joint Venture LLC	22.5953	22.5953
Peters Land Realty, LLC	26.7644	26.7644
Queens Blvd. Realty, LLC	12.6867	12.6867
Seaford Joint Venture	22.6781	22.6781

(a) % of Company's beneficial interest in the underlying investment.

(b) Excludes indirect interest through JEM.

(c) Represents 35.7135% of 10 Grand Central (formerly known as 708 Third Avenue) and 17.85675% of 712 Third Avenue.

(d) See Note 5, page 19.

(e) On February 26, 2021, the Investor purchased a 70% ownership in Herald. As a result, the Company's previous 95.01% equity interest in Herald was reduced to 28.503%. Previously, Herald was a consolidated entity and not reflected in the table above.

(f) Merchants sold its interest in Arlington Joint Venture on February 2, 2022.

(g) See Note 1, page 7.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

On May 1, 2021, the ground lease for one of the properties in which the Company has an indirect ownership interest, located at 430 Park Avenue in New York City, was extended for 28 years from April 2042 to April 2070.

Effective July 1, 2021, the Company increased its ownership interest in Boston Syndicate from 25% to 31.4393% by acquiring additional ownership interest from other Boston Syndicate members, who tendered their interest at a cost equal to their total cash investment in Boston Syndicate of \$117,708 per 1% interest.

On August 5, 2021, a new \$31 million two-year (with two additional one-year extension options) mortgage was placed on the 430 Park Avenue property to replace an existing \$11.4 million mortgage which was set to mature in April 2022.

The Miami, FL property owned by Orange was sold on August 17, 2021 for \$15,350,000. The Company's share of the gain on the sale of this property was approximately \$5.5 million.

6 - LOANS RECEIVABLE, REAL ESTATE VENTURE

Loans receivable from one real estate venture affiliate in the amount of \$1,818,750 and \$1,800,000 as of March 31, 2022 and December 31, 2021, respectively, are due on demand and bear interest at 5.0%. As of March 31, 2022 and December 31, 2021, accrued interest of \$318,750 and \$300,000, respectively, was included in the loan receivable balance. Management believes that these loans are fully collectible, and no allowance for loan loss is required at March 31, 2022 and December 31, 2021.

7 - LINE OF CREDIT

Merchants had a \$30,000,000 credit facility (the "Facility") with Capital One Bank, which expired on May 1, 2021. The Facility was subject to a borrowing base of 70% of the fair value of Merchants' marketable securities and 100% of the value of cash and cash equivalents. The interest rate on the Facility was LIBOR plus 1.35% (1.35% at December 31, 2021). The Facility was subject to certain covenants, as described in the facility agreement, and allowed Merchants to request that the bank issue standby letters of credit on its behalf.

In March 2021, Merchants obtained a new three-year \$40 million credit facility (the "New Facility") with Valley National Bank, expiring February 2024. The New Facility is subject to a borrowing base of 75% of the fair value of the Company's marketable securities and 100% of the value of cash and cash equivalents. The interest rate on the New Facility is LIBOR plus 1.25%. The New Facility is subject to certain covenants and allows the Company to request that the bank issue standby letters of credit of up to \$10 million on its behalf. Soon after closing the New Facility, the Company paid off the entire outstanding balance of \$21.5 million on the Facility.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 - LINE OF CREDIT (Continued)

As of December 31, 2020, the Company had \$21,500,000 of outstanding borrowings under the Facility. No amounts were outstanding under the New Facility as of March 31, 2022 and December 31, 2021.

Interest expense for the three months ended March 31, 2021 was \$54,512. There was no interest expense on the New Facility during the three months ended March 31, 2022.

8 – LOAN PAYABLE, PAYCHECK PROTECTION PROGRAM

In April 2020, the Company applied for and received funding for a loan totaling \$578,297 under the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”), which is part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), enacted on March 27, 2020. Under the terms of the SBA PPP loan, up to 100% of the principal and accrued interest could be forgiven if certain criteria were met and the loan proceeds were used for qualifying expenses such as payroll costs, benefits, rent and utilities as described in the CARES Act. The loan accrued interest at a rate of 1% and any portion of the principal and accrued interest that was not forgiven was required to be repaid by April 20, 2022. Interest expense for the three months ended March 31, 2022 and 2021 was not considered significant to the Company’s consolidated financial statements. The loan was forgiven on August 6, 2021 and is included in other revenues on the accompanying consolidated statements of operations. The SBA reserves the right to audit loan forgiveness for six years from the date forgiveness was granted.

9 - MORTGAGES PAYABLE

In August 2019, Merchants obtained a \$8,625,000 mortgage payable, secured by a first mortgage lien on the property located at 605-609 West 181st Street, New York, NY. The mortgage required monthly payments of interest only at 3.39% through September 1, 2020.

Beginning October 1, 2020, the mortgage requires principal and interest payment based on a 24-year amortization term. The mortgage matures on September 1, 2029, at which time the outstanding principal balance and any unpaid interest is due. For the three months ended March 31, 2022 and 2021, interest expense was \$67,367 and \$81,342, respectively. The mortgage payable balance at March 31, 2022 and December 31, 2021 was \$8,267,026 and \$8,327,962, respectively. The loan is subject to a debt service coverage ratio of 1.10. Beginning January 1, 2020, the debt service ratio requires quarterly testing.

In October 2014, Brahmin obtained three mortgages totaling \$2,790,000, which collectively are secured by a first mortgage lien on the properties located at 10-14 Bosworth Street, 41 Bromfield Street and 45 Bromfield Street, Boston, MA. On June 1, 2019, the three mortgages with an outstanding balance of approximately \$2,480,000 were modified to allow for borrowings up to \$4,750,000. The modified mortgages require monthly payments in the aggregate of \$52,342 with 4.35% of interest to adjust every seven years through November 1, 2039. The initial interest rate during the first seven years is fixed at 4.35% and every seven years the interest will adjust to 185 basis points plus the seven-year US Treasury

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 - MORTGAGES PAYABLE (Continued)

Index not to exceed 4.35%. Merchants is a limited guarantor of this loan. Interest expense was \$48,568 and \$49,811 for the three months ended March 31, 2022 and 2021, respectively. The mortgage payable balances at March 31, 2022 and December 31, 2021 were \$4,445,162 and \$4,475,093, respectively. The loan is subject to a debt service coverage ratio of 1.20, which shall be tested annually. Brahmin is currently not in compliance with the ratio; however, Brahmin is current in its debt service payments.

On April 3, 2015, Putnam obtained a construction loan in the amount of \$4,000,000 for the development of its property, with an option to convert it to a permanent facility at the issuance of a certificate of occupancy after closing. The loan bore interest at the Wall Street Journal Prime Rate plus a margin of 0.123% on the outstanding balance. On December 29, 2016, the outstanding construction loan in the amount of \$3,965,429 was converted into a permanent mortgage of \$4,500,000, maturing on January 1, 2024. The mortgage requires monthly payments in the aggregate of \$21,484, including principal and interest based on a 30-year amortization schedule. The interest rate during the term of the note is 4%. For the three months ended March 31, 2022 and 2021, interest expense was \$40,641 and \$41,574, respectively. The mortgage payable balance at March 31, 2022 and December 31, 2021 was \$4,055,971 and \$4,079,703, respectively. The loan is subject to a debt service ratio of 1.25, which shall be tested annually. Putnam is currently not in compliance with the ratio; however, Putnam is current in its payment of debt service.

On September 11, 2015, University obtained a loan in the amount of \$9,000,000. The loan requires monthly payments in the aggregate of \$47,291, including interest equal to LIBOR plus 1.625% (1.72% and 2.61% at December 31, 2021 and 2020, respectively), and has a maturity date of September 11, 2025. Merchants is the guarantor of this loan. The loan can be prepaid in whole or in part from time to time without penalty. The loan is subject to a debt service ratio of 1.30, which shall be tested annually. University is currently not in compliance with the ratio; however, University is current in its debt service payments.

If the debt service ratio falls below 1.30, University is required to provide cash collateral or an unconditional standby letter of credit. In April 2018, University deposited \$300,000 in a debt service reserve at the request of the lender in order to satisfy this covenant due to noncompliance as of December 31, 2017. For the three months ended March 31, 2022 and 2021, interest expense was \$72,952 and \$75,544, respectively. The mortgage payable balance at March 31, 2022 and December 31, 2021 was \$7,458,476 and \$7,527,167, respectively.

In November 2016, Athens obtained a \$5,000,000 mortgage payable, secured by a first mortgage lien on the property located at 819 7th Street NW, Washington DC. Merchants is a limited guarantor of this loan. The mortgage requires monthly payments in the aggregate of \$25,199, including principal and interest, based on a 25-year amortization schedule and has a maturity date of December 1, 2023. The interest rate during the term of the note is 3.50%. For the three months ended March 31, 2022 and 2021, interest expense was \$37,763 and \$39,039, respectively. The mortgage payable balance at March 31, 2022 and December 31, 2021 was \$4,287,669 and \$4,325,502, respectively. The loan is subject to a debt service ratio of 1.25, which shall be tested annually.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 - MORTGAGES PAYABLE (Continued)

In April 2020, Herald obtained a mortgage payable of up to \$49,844,000, secured by a first mortgage lien on the property located at 1307 New York Avenue, NW, Washington, DC. Merchants is a limited guarantor on this loan. In addition, Merchants has provided Interest, Carry and Rebalancing Guaranty (the "ICR Guaranty"), Deferred Equity and Completion guarantees and an Environmental Indemnity Agreement. Among other requirements, the ICR Guaranty will terminate upon the completion of construction work and achievement of an occupancy rate of 88% of net rentable square footage. The mortgage payable matures in April 2023, requires monthly interest only payments at the rate of 4.5% and contains two 12-month extension options, subject to Merchants meeting certain conditions. For the three months ended March 31, 2022 and 2021, interest expense was \$0 and \$102,834, respectively. Due to the de-consolidation of Herald (Note 1), the mortgage balance at March 31, 2022 was zero on the Company's consolidated balance sheet.

In February 2022, Wisconsin obtained a mortgage payable of up to \$20,730,000, secured by a first mortgage lien on the property located at 2121 Wisconsin Avenue, NW, Washington, DC. Merchants is a limited guarantor on this loan. In addition, Merchants has provided an environmental indemnity guaranty (the "Guaranty"). Management believes that there is no liability under the Guaranty at March 31, 2022. The mortgage payable matures in February 2032, requires monthly interest only payments at the rate of 3.4% for the first 24 months and then principal and interest payments thereafter of \$85,064, based on a 35-year amortization period. For the quarter ended March 31, 2022 interest expense was \$91,041. The mortgage payable balance at March 31, 2022 was \$16,620,000.

Future minimum payments on the aforementioned mortgages payable are as follows:

Year Ending December 31,		
2022	\$	669,143
2023		4,940,265
2024		1,053,635
2025		7,507,909
2026		869,249
Thereafter		30,094,102
		45,134,303
Less: unamortized debt issuance costs		469,552
	\$	44,664,751

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 - LEASE ARRANGEMENTS

Building space is leased under noncancelable operating leases. Certain tenant leases provide for the payment of minimum rentals plus a percentage of the tenant's sales in excess of stipulated amounts. Minimum rental revenues under existing noncancelable leases as of March 31, 2022 are approximately as follows:

Year Ending December 31,	
2022	\$ 5,642,000
2023	7,310,000
2024	6,608,000
2025	6,325,000
2026	6,309,000
Thereafter	43,424,000
	\$ 75,618,000

Common area maintenance and real estate tax escalation charges included in rental income were \$116,249 and \$85,575 for the three months ended March 31, 2022 and 2021, respectively.

For the three months ended March 31, 2022, one tenant represented approximately 17% of rental income. For the three months ended March 31, 2021, two tenants represented approximately 34% of rental income.

11 - INCOME TAXES

The Company's effective tax rate differs from the statutory tax rate due to state credits, as discussed below. The Company's income tax provision consists of the following:

	Three Months Ended March 31,	
	2022 (unaudited)	2021 (unaudited)
Current		
Federal	\$ 643,281	\$ 367,857
State	315,309	261,291
	958,590	629,148
Deferred		
Federal	(2,030,736)	1,225,837
State	(53,480)	70,127
	(2,084,216)	1,295,964
Income tax (benefit) provision per consolidated statements of operations	\$ (1,125,626)	\$ 1,925,112

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 - INCOME TAXES (Continued)

Components of deferred tax assets and liabilities are as follows:

	March 31, <u>2022 (unaudited)</u>		December 31, <u>2021 (audited)</u>	
	Components	Tax Effect	Components	Tax Effect
<u>Deferred tax assets</u>				
Bad debt expense	\$ 138,733	\$ 40,347	\$ 132,315	\$ 38,480
Depreciation - state	15,870,067	1,623,508	15,870,067	1,623,509
Impairment loss	406,400	118,189	1,308,732	380,602
Unrealized loss on interest rate swap	-	-	411,062	119,544
Prepaid rent	2,395,041	696,519	1,094,150	318,197
	<u>18,810,241</u>	<u>2,478,563</u>	<u>18,816,326</u>	<u>2,480,332</u>
<u>Deferred tax liabilities</u>				
Amortization	1,846,229	536,914	1,846,229	536,914
Depreciation - federal	2,969,966	623,693	2,214,081	464,957
Deferred gain on disposal of rental property	33,371,588	9,705,025	33,371,588	9,705,025
Deferred revenue	8,279,989	2,407,962	8,130,443	2,364,471
Tangible property regulation (263a)	12,087,139	3,515,146	12,087,139	3,515,146
Other	5,525,388	1,606,877	5,164,431	1,501,904
Unrealized gain on interest rate swap	345,692	100,533	-	-
Unrealized gain on marketable securities	63,035,006	13,867,701	74,370,087	16,361,419
	<u>127,460,997</u>	<u>32,363,851</u>	<u>137,183,998</u>	<u>34,449,836</u>
Net deferred tax liability	<u>\$108,650,756</u>	<u>\$29,885,288</u>	<u>\$118,367,672</u>	<u>\$31,969,504</u>

The above components of deferred tax assets and liabilities also include GAAP to tax differences from investment in real estate ventures.

12 - RELATED PARTY TRANSACTIONS

The Company manages various properties and several entities through which investments in real estate ventures are held. Management fees, leasing commissions, supervisory fees and other revenues earned from related parties for the three months ended March 31, 2022 and 2021 were \$2,575,033 and \$1,638,573, respectively.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 - RELATED PARTY TRANSACTIONS (Continued)

As of March 31, 2022 and December 31, 2021, the amount due from related parties for management fees, leasing commissions, supervisory fees and other charges was \$3,801,543 and \$4,006,002, respectively. These amounts are non-interest bearing and are due on demand.

Loans to employees for the purchase of membership interests in certain subsidiaries totaling \$2,483,779 and \$1,385,019 at March 31, 2022 and December 31, 2021, respectively, are included in receivables from employees on the consolidated balance sheets. The loans bear interest at 6%, and any unpaid balance, including accrued interest, is due within 12 months of termination of employment with the Company. The loans to employees are collateralized by the employees' respective ownership interest in these subsidiaries.

13 - RETIREMENT PLAN

The Company makes matching contributions to a retirement plan equivalent to 50% of participants' contributions, not to exceed 2% of such employees' base compensation, or the Internal Revenue Code imposed annual maximum of \$6,100 for 2022 and \$5,800 for 2021. The Company's matching contributions for the three months ended March 31, 2022 and 2021 were \$24,594 and \$21,750, respectively.

14 - COMMITMENTS AND CONTINGENCIES

Guarantees and Indemnification

In April 2020, Herald obtained a mortgage payable of up to \$49,844,000, with a mortgage balance outstanding at September 30, 2021 in the amount of \$32,424,549 secured by a first mortgage lien on the property located at 1307 New York Avenue, NW, Washington, DC. Merchants is a limited guarantor on this loan. In addition, Merchants has provided Deferred Equity and Completion guarantees, an Environmental Indemnity Agreement and an Interest, Carry and Rebalancing Guaranty (the "Guaranty"). Among other requirements, the Guaranty will terminate upon the completion of construction work and achievement of an occupancy rate of 88% of net rentable square footage. In January 2022, the construction was completed. Management believes that there is no liability under the Guaranty at March 31, 2022 and December 31, 2021. The mortgage payable matures in April 2023, requires monthly interest only payments at the rate of 4.5% and contains two 12-month extension options, subject to Merchants meeting certain conditions.

In February 2022, Wisconsin obtained a mortgage payable of up to \$20,730,000, secured by a first mortgage lien on the property located at 2121 Wisconsin Avenue, NW, Washington, DC. Merchants is a limited guarantor on this loan. In addition, Merchants has provided a Guaranty. Management believes that there is no liability under the Guaranty at March 31, 2022. The mortgage payable matures in February 2032, requires monthly interest only payments at the rate of 3.4% for the first 24 months with a 35-year amortization thereafter. For the quarter ended March 31, 2022 interest expense was \$91,041. The mortgage payable balance at March 31, 2022 was \$16,620,000.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 - COMMITMENTS AND CONTINGENCIES (Continued)

Guarantees and Indemnification (continued)

In addition, the Company has signed limited suretyship and guarantee agreements with the mortgagees of three investees as of March 31, 2022 and December 31, 2021, which own rental real properties with mortgages outstanding of approximately \$18,898,000 and \$18,944,000 as of March 31, 2022 and December 31, 2021, respectively. In addition, the Company has provided indemnification for any environmental issues to the lenders of these investees. Management believes that there is no liability under these guarantees as of March 31, 2022 and December 31, 2021.

Lease

The Company leases office space from 708 Third Avenue Holdings, LLC, in which it has an investment. The lease expires on January 23, 2029. For the three months ended March 31, 2022 and December 31, 2021, rent expense, including real estate tax and operating expense escalations, was \$56,301 and \$54,801, respectively.

Minimum rental expense under this lease as of December 31, 2021 is as follows:

Year Ending December 31,	
2022	\$ 153,560
2023	204,746
2024	217,273
2025	218,099
2026	218,099
Thereafter	449,683
	<u>\$ 1,461,460</u>

Employment Agreement

In August 2017 (the "Award Date"), the Company granted its Chief Executive Officer (the "CEO") a long-term incentive award equal to \$750,000 (the "LT Cash Incentive"). The LT Cash Incentive shall vest on each of the three anniversaries of the Award Date in three equal installments, subject to the CEO's continued employment through the respective vesting dates. As of December 31, 2021 and 2020, \$750,000 was vested and is included in accounts payable and accrued expenses. In January 2022, this vested and accrued amount was paid to the CEO.

In April 2020, the Company amended and restated the original 2017 employee agreement with the CEO ending August 2024, with an automatic extension of one year, pursuant to which the Company agreed to pay a base annual salary of \$620,000, with an annual increase of the lesser of the increase in the consumer price index or 3% per year. The CEO also became eligible for an annual performance bonus award providing a target bonus opportunity of 75% of the current base salary. The Company also granted

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 - COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreement (continued)

the CEO a new long-term incentive award equal to \$1,100,000 (the "New LT Cash Incentive"). The New LT Cash Incentive shall vest on each of the four anniversaries of the Award Date in four equal installments, subject to the CEO's continued employment through the respective vesting dates. As of March 31, 2022, \$343,750 was accrued and included in accounts payable and accrued expenses.

In addition, when the Company enters into new investments, as defined in the CEO's employment agreement, the CEO is required to make a personal investment at the level of 5% of the Company's investment. The funds for the CEO's personal investments would be loaned by the Company on a non-recourse basis, with interest at 6% a year, using the acquired equity as collateral. The unpaid balance, including accrued interest, is due within 12 months of termination of employment with the Company. As of March 31, 2022 and December 31, 2021, the loan balance, including accrued interest, was \$1,916,182 and \$1,238,381, respectively. These amounts are included in receivables from employees on the accompanying consolidated balance sheets.

For the three months ended March 31, 2022, the CEO's total compensation was \$365,181, which consisted of \$171,931 for base salary, a \$124,500 bonus and a \$68,750 New LT Cash Incentive. For the three months ended March 31, 2021, the CEO's total compensation was \$335,860, which consisted of \$147,372 for base salary, a \$119,738 bonus and a \$68,750 LT Cash Incentive.

In April 2021, the Company entered into a restricted stock agreement pursuant to which the CEO was granted 100 shares of common stock of the Company. In December 2021, the CEO was granted an additional 100 shares of common stock of the Company. These 200 shares will become fully vested on August 10, 2024, provided the CEO remains employed by the Company at that date. Unless and until this agreement is rescinded, the CEO shall have all voting rights and receive all dividends paid with respect to the 200 shares.

The Company follows the provisions of ASC Topic 718, "Compensation - Stock Compensation", which covers a wide range of share-based compensation arrangements and provides guidance for recognition of compensation cost related to these types of transactions. Compensation will be measured based on the fair value of the equity instrument when they are earned. The fair value of the Company's stock awards will be determined based on Level 2 inputs.

Capital Calls and Investment Funding

In the normal course of business, the Company may request additional capital contributions from its investors.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 - COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

In the normal course of business, the Company is a party to various legal claims, actions and complaints relating to its real estate activities. Management does not expect that the results of any of these proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

15 – HEALTH RISK UNCERTAINTY

The spread of a novel strain of coronavirus (“COVID-19”) around the world continues to cause significant volatility in the U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will materially impact its operations.

16 – SUBSEQUENT EVENT

In May 2022, 708 Third Avenue Associates LLC (“708”), one of the investees in which the Company has a 36.25% ownership interest, drew-down \$26.1 million of additional funding under its existing facility. Prior to the additional funding, 708 had borrowed \$110 million from the facility in June 2019. With the additional funding, the total loan on the property, located at 10 Grand Central, 155 East 44th Street, New York, NY is \$136.1 million. The loan bears interest at 3.99%. The proceeds from the additional funding will be used primarily for future leasing and tenant improvements and for environmental related building improvements.