MNP

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 44th 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 15, 2023: 90,674

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.

MNP

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

May 15, 2023

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, 2023 and 2022. These statements have been filed with the OTC Markets.

Financial Highlights:

For the three months ended March 31, 2023, the Company reported grossed-up rental and other income of \$14.2 million, as compared to \$13.2 million for the three months ended March 31, 2022. For the three months ended March 31, 2023, the Company reported grossed-up operating income of \$6.5 million, as compared to \$5.9 million for the three months ended March 31, 2022. Combined with the \$2.6 million increase in the value of marketable securities in 2023, the Company reported grossed-up earnings before interest, taxes, depreciation and amortization ("EBITDA") of \$9.3 million for the three months ended March 31, 2023 as compared to a grossed-up loss of \$3.8 million for the three months ended March 31, 2022, caused primarily by the \$11.3M loss in the value of marketable securities. Finally for the three months ended March 31, 2023, the Company reported a net income of \$3.2 million, as compared to a net loss of \$7.5 million for the three months ended March 31, 2022.

Earnings per share from operations for the three months ended March 31, 2023 and 2022 were \$12.36 and \$15.21, respectively. Including non-recurring gains and losses, net of taxes, the reportable earnings per share for the three months ended March 31, 2023 was \$34.81 as compared to the \$82.30 loss per share for the three months ended March 31, 2022.

For the three months ended March 31, 2023, stockholders' equity increased by \$3.2 million with a corresponding increase in book value per share to \$2,259 at March 31, 2023 from \$2,211 at March 31, 2022. The Company paid \$70.00 per share in dividends in 2022. Earlier this month, the Board approved an interim 2023 dividend of \$25.00 per share, which is payable on May 18, 2023.

No shares were purchased by MNP during the three months ended March 31, 2023 and 2022, respectively. As of March 31, 2023 and 2022, 90,674 shares of common stock were outstanding.

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 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 following table provides a side-by-side comparison of MNP's March 31, 2023 vs. March 31, 2022 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. As Grossed-Up

	Three Months Ended March 31, 2023		Three Months Ended March 31, 2022		
	As Unaudited	**As Grossed-Up**	**As Unaudited**	**As Grossed-Up**	
Rental and other income	$ 4,532,801	$ 14,215,874	$ 4,392,410	$ 13,176,098	
Equity in earnings of real estate ventures	1,533,399	-	1,710,088	-	
Operating expenses	(3,521,731)	(7,705,980)	(3,253,475)	(7,322,107)	
Operating income	**2,544,469**	**6,509,894**	**2,849,023**	**5,853,991**	
Investment income	414,719	570,108	276,906	279,333	
Non-recurring gain	-	-	-	490,525	(A)
Unrealized gain (loss) on marketable securities	2,556,412	2,558,494	(11,335,080)	(11,335,080)	(B)
Unrealized (loss) gain on swap contracts	(245,714)	(292,887)	823,643	902,525	(C)
EBITDA	**5,269,886**	**9,345,609**	**(7,385,508)**	**(3,808,706)**	
Financing expense	(433,071)	(2,038,225)	(386,614)	(1,715,534)	
Depreciation and amortization expense	(947,036)	(3,326,328)	(775,729)	(2,922,649)	
Income taxes	(859,500)	(950,777)	(958,590)	(1,059,552)	
Income taxes - deferred	21,872	21,872	2,084,216	2,084,216	
Net income (loss)	**3,052,151**	**3,052,151**	**(7,422,225)**	**(7,422,225)**	
Noncontrolling interests in loss (income) of consolidated subsidiaries	104,505	104,505	(119,365)	(119,365)	
Net income (loss) attributable to Merchants' National Properties, Inc.	**$ 3,156,656**	**$ 3,156,656**	**$ (7,541,590)**	**$ (7,541,590)**	

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, 2023 and 2022, 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, the grossed-up income before taxes increased to $9.3 million for the three months ended March 31, 2023, as compared to a grossed-up loss of $3.8 million for the three months ended March 31, 2022.

(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, 2023, this change in fair value has resulted in decreasing grossed-up income before taxes by $0.3 million, as compared to increasing grossed-up income before taxes by $0.9 million for the three months ended March 31, 2022.

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, 2023 AND 2022

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

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

	March 31, 2023 (unaudited)	December 31, 2022 (audited)
ASSETS		
Rental properties, net	$ 77,658,671	$ 77,432,417
Marketable securities	63,843,496	61,287,084
Investments in real estate ventures	116,179,915	112,466,720
Intangible asset available for sale	782,701	779,114
Cash and cash equivalents	19,985,725	20,983,236
Restricted cash	751,442	749,857
Tenant security deposits in escrow	468,776	476,922
Receivables:		
Loans, real estate ventures	1,893,750	1,875,000
Affiliated real estate ventures	730,133	670,423
Employees	2,748,296	2,627,973
Related parties	1,290,488	3,075,213
Tax refund	38,054	38,054
Deferred rent	2,554,174	2,478,809
Tenants	334,811	266,186
Other	499,586	255,265
Interest rate swaps	1,017,577	1,263,291
Prepaid expenses and other assets, net of accumulated amortization of $898,667 and $1,029,107 in 2023 and 2022, respectively	1,883,129	1,996,775
In-place leases, net of accumulated amortization of $707,814 and $556,140 in 2023 and 2022, respectively	6,015,716	6,167,390
Operating lease right-of-use asset	1,200,104	1,246,210
Prepaid income taxes	1,117,034	1,591,944
Deferred tax assets	4,203,169	3,684,562
Total assets	**$ 305,196,747**	**$ 301,412,445**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 4,403,845	$ 3,833,605
Below-market leases, net of accumulated amortization of $183,694 and $144,331 in 2023 and 2022, respectively	2,149,208	2,188,570
Operating lease liability	1,211,693	1,255,481
Income taxes payable	8,813	-
Security deposits	709,170	709,170
Due to affiliate	463,613	516,900
Mortgages payable, less unamortized debt issuance costs of $348,513 and $378,113 in 2023 and 2022, respectively	43,888,933	44,088,885
Deferred tax liabilities	34,522,838	34,026,103
Total liabilities	**87,358,113**	**86,618,714**
Stockholders' Equity		
Common stock, $1 par value; 187,000 shares authorized, 105,199 shares issued (shares outstanding, 90,674 in 2023 and 2022, respectively)	105,199	105,199
Additional paid-in capital	1,146,317	1,146,317
Retained earnings	220,430,434	217,273,778
Treasury stock, at cost (14,525 shares in 2023 and 2022)	(16,830,745)	(16,830,745)
Total stockholders' equity	**204,851,205**	**201,694,549**
Noncontrolling interests	12,987,429	13,099,182
	217,838,634	**214,793,731**
Total liabilities and stockholders' equity	**$ 305,196,747**	**$ 301,412,445**

See notes to consolidated financial statements.

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

	Three Months Ended March 31, 2023 (unaudited)	Three Months Ended March 31, 2022 (unaudited)
Revenues		
Rental revenues	$ 2,331,022	$ 2,042,797
Management fees	828,902	873,593
Leasing commissions	427,394	678,959
Development and buildout fees	232,302	182,474
Other revenues	713,181	614,587
Total revenues	**4,532,801**	**4,392,410**
Operating Expenses		
Real estate taxes	387,590	348,152
Depreciation and amortization	947,036	775,729
Other operating expenses	502,850	295,330
Financing expenses	433,071	386,613
Total operating expenses	**2,270,547**	**1,805,824**
Net revenues from rentals and other income	**2,262,254**	**2,586,586**
Equity in earnings from real estate ventures, net	1,533,399	1,710,087
Investment income	414,719	276,906
Unrealized gain (loss) on marketable securities	2,556,412	(11,335,080)
Unrealized (loss) gain on interest rate swaps	(245,714)	823,643
Net income (loss) before general and administrative expenses and other costs and income tax expense (benefit)	**6,521,070**	**(5,937,858)**
General and administrative expenses and other costs		
Professional fees	123,128	141,958
Salaries and other general expenses	2,508,163	2,468,035
Total general and administrative expenses and other costs	**2,631,291**	**2,609,993**
Net income (loss) before income tax expense (benefit)	**3,889,779**	**(8,547,851)**
Income tax expense (benefit)	837,628	(1,125,626)
Net income (loss)	**3,052,151**	**(7,422,225)**
Noncontrolling interests in loss (income) of consolidated subsidiaries	104,505	(119,365)
Net income (loss) attributable to Merchants' National Properties, Inc.	**$ 3,156,656**	**$ (7,541,590)**
Basic and diluted earnings (loss) per share	$ 34.81	$ (82.30)
Weighted average number of common shares outstanding		
Basic and diluted	90,674	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, 2023 AND 2022

	Common Stock		Additional Paid-In	Retained	Treasury Stock		Non-Controlling	Total
	Shares	Amount	Capital	Earnings	Shares	Amount	Interests	Equity
Balance, January 1, 2023	**105,199**	**$ 105,199**	**$ 1,146,317**	**$ 217,273,778**	**(14,525)**	**$ (16,830,745)**	**$ 13,099,182**	**$ 214,793,731**
Net income (loss)	-	-	-	3,156,656	-	-	(104,505)	3,052,151
Capital distributions	-	-	-	-	-	-	(7,248)	(7,248)
Balance, March 31, 2023 (unaudited)	**105,199**	**$ 105,199**	**$ 1,146,317**	**$ 220,430,434**	**(14,525)**	**$ (16,830,745)**	**$ 12,987,429**	**$ 217,838,634**
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*	-	-	-	-	-	-	3,135,979	3,135,979
Capital contributions	-	-	-	-	-	-	1,095,498	1,095,498
Balance, March 31, 2022 (unaudited)	**105,199**	**$ 105,199**	**$ 1,146,317**	**$ 219,795,075**	**(13,562)**	**$ (15,395,875)**	**$ 13,335,973**	**$ 218,986,689**

* 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, 2023 (unaudited)	Three Months Ended March 31, 2022 (unaudited)
Cash flows from operating activities		
Net income (loss)	$ 3,052,151	$ (7,422,225)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	735,585	575,486
Amortization of deferred leasing costs	59,777	99,127
Amortization of debt issuance costs included in financing expenses	29,600	28,281
Amortization of below-market leases	(39,362)	(26,300)
Amortization of operating leases	2,318	-
Amortization of in-place leases	151,674	101,116
Benefit for deferred taxes	(21,872)	(2,084,216)
Accrued interest on loans receivable, real estate ventures	(18,750)	(18,750)
Equity in earnings of investments in real estate ventures, net	(1,533,399)	(1,710,087)
Unrealized loss (gain) on interest rate swaps	245,714	(823,643)
Unrealized (gain) loss on marketable securities	(2,556,412)	11,335,080
Changes in assets and liabilities		
Receivables - affiliated real estate ventures	(59,710)	775,972
Receivables - employees	(120,323)	(1,098,760)
Receivables - related parties	1,784,725	204,459
Receivables - deferred rent	(75,365)	(79,119)
Receivables - tenants	(68,625)	-
Receivables - other	(244,321)	642,684
Prepaid expenses and other assets	53,869	(27,493)
Prepaid income taxes	474,910	56,136
Accounts payable and accrued expenses	570,240	3,371,168
Income taxes payable	8,813	655,019
Security deposits	-	123,759
Due to affiliate	(53,287)	-
Net cash provided by operating activities	**2,377,950**	**4,677,694**
Cash flows from investing activities		
Contributions to investments in real estate ventures	(3,950,983)	(2,931,588)
Distributions from investments in real estate ventures	1,771,187	2,912,944
Purchase of rental properties	-	(17,430,612)
Additions to buildings and improvements	(961,839)	(176,620)
Intangible asset available for sale	(3,587)	-
Net cash used in investing activities	**(3,145,222)**	**(17,625,876)**
Cash flows from financing activities		
Capital contributions from noncontrolling interests	-	1,095,498
Capital distributions to noncontrolling interests	(7,248)	-
Principal payments of mortgages payable	(229,552)	(221,121)
Proceeds from mortgage payable	-	16,620,000
Debt issuance costs	-	(160,954)
Net cash (used in) provided by financing activities	**(236,800)**	**17,333,423**
Net (decrease) increase in cash and cash equivalents, restricted cash and tenant security deposits in escrow	**(1,004,072)**	**4,385,241**
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of period	22,210,015	19,625,484
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of period	**$ 21,205,943**	**$ 24,010,725**

See notes to consolidated financial statements.

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

	Three Months Ended March 31, 2023 (unaudited)	Three Months Ended March 31, 2022 (unaudited)
Reconciliation of cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of period		
Cash and cash equivalents	$ 20,983,236	$ 17,398,949
Restricted cash	749,857	1,747,272
Tenant security deposits in escrow	476,922	479,263
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of period	**$ 22,210,015**	**$ 19,625,484**
Reconciliation of cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of period		
Cash and cash equivalents	$ 19,985,725	$ 19,300,953
Restricted cash	751,442	4,233,782
Tenant security deposits in escrow	468,776	475,990
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of period	**$ 21,205,943**	**$ 24,010,725**
Supplemental cash flow disclosures		
Interest paid	$ 408,802	$ 423,673
Income taxes paid - net of refunds of $40,500 and $0, respectively	2,428,516	-
Supplemental non-cash investing and financing activities		
Capital improvements included in accounts payable and accrued expenses	191,104	-
Write-off of fully amortized deferred lease costs	153,786	-
Reclassification of assets, liabilities, noncontrolling interests and equity due to consolidation of investment in joint venture		
Investments in real estate ventures	-	(8,338,848)
Noncontrolling interests	-	(3,135,979)

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"), Orange Syndicate ("Orange") 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 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.

1 – ORGANIZATION (Continued)

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, 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. 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 68.62% of Wisconsin (59.21% through Orange and 9.41% 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 and Wisconsin, a 68.62% owned TIC interest. 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.

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 asset acquisition allocation, depreciable lives, impairment of long-lived assets and investments in real estate ventures 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.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 allocating the fair value of the identified intangible assets and liabilities of the acquired properties, below-market lease values were recorded based on the discounted difference between the current in-place rent and the Company's estimate of current market rents. Other intangible assets acquired include amounts for in-place lease values that were based on the Company's evaluation of specific characteristics of the tenants' leases. Factors considered included estimates of carrying costs during hypothetical expected lease-up periods, taking into account current market conditions, and costs to execute similar leases. In estimating carrying costs, the Company included real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, based on local market conditions. In estimating costs to execute similar leases, the Company considered tenant improvement allowances, leasing commissions, legal and other related expenses. The below-market leases are amortized as a charge to rental revenues over the term of the leases. Amortization of the in-place lease values is included in amortization.

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 accompanying consolidated statements of operations.

In-Place Leases

Amortization of acquired in-place leases for the three months ended March 31, 2023 and 2022 was $151,674 and $101,116, respectively, and is included as a component of amortization in the accompanying consolidated statements of operations. As of March 31, 2023, future amortization expense is as follows:

Year Ending December 31,	
2023	$ 455,024
2024	606,698
2025	606,698
2026	561,565
2027	540,986
Thereafter	3,244,745
	$ 6,015,716

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Below-Market Leases

Amortization of acquired below-market leases for the three months ended March 31, 2023 and 2022 was $39,363 and $26,300, respectively, and is included as a component of rental revenues in the accompanying consolidated statements of operations. As of March 31, 2023, future amortization of below-market leases is as follows:

Year Ending December 31,	
2023	$ 118,086
2024	157,451
2025	157,451
2026	142,305
2027	140,927
Thereafter	1,432,988
	$ 2,149,208

At acquisition of Wisconsin, the weighted average amortization period for below market leases and in-place lease costs were 9.21 years and 8.15 years, respectively.

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, 2023 or 2022.

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

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Asset Available-for-Sale (continued)
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, 2023 or 2022. The Company is currently under contract to sell the license and the closing is expected to be completed in May 2023.

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, 2023 or 2022.

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. At times, the balances may exceed federally insured limits; however, no losses have been incurred.

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 and are recorded as a direct deduction of the related debt obligation. These costs are being amortized on the straight-line basis over the term of the related loans, which approximates the effective interest method. For the three months ended March 31, 2023 and 2022, amortization of deferred financing costs was $29,600 and $28,281, respectively. These amounts are included in financing expenses on the consolidated statements of operations.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 not designated the interest rate derivatives as hedges, based on its assessment of market conditions. Therefore, changes in the fair value have been recorded in the results of operations for the three months ended March 31, 2023 and 2022.

As of March 31, 2023 and 2022, the Company recorded a loss of $245,714 and a gain of $823,643, respectively, on the fair value of the interest rate swap agreements.

Income Taxes

The Company files a combined income tax return for New Jersey, New York State and New York City except for Putnam, Bethpage, Brahmin, Madison, University, Athens, Bell, Orange and MNP 2121. 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. Putnam, Bethpage, Brahmin, Madison, University, Athens, Bell, Orange, and MNP 2121 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.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company recognizes base rental revenue on a straight-line basis over the terms of the respective leases which are accounted for under Accounting Standards Codification 842, Leases ("ASC 842"). Unbilled rents receivable represent the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Revenue recognition commences from lease agreements at the date the leased premise is ready for its intended use by the tenant and the tenant takes possession or controls the physical use of the leased premise.

In addition to base rents, tenants are also charged for their pro rata share of increases in real estate taxes and certain operating expenses for the Property over a base year.

The Company provides its tenants with certain customary services for lease contracts such as common area maintenance and general security. The Company has utilized the practical expedient in ASC 842 and has elected to combine the non-lease components with the lease components of operating lease agreements and account for them as a single lease component in accordance with ASC 842. 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, 2023 or 2022. The receivable balance at January 1, 2022 was $310,345.

In accordance with ASC 606, Revenue from Contracts with Customers, management fees, accounting 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

Gains on sales of real estate are recognized pursuant to the provisions included in ASC 610-20. Under ASC 610-20, the Company must first determine whether the transaction is a sale to a customer or non-customer. The Company typically sells real estate on a selective basis and not within the ordinary course of its business and therefore expects that its sale transactions will not be contracts with customers. The Company next determines whether it has a controlling financial interest in the property after the sale, consistent with the consolidation model in ASC 810 "Consolidation" ("ASC 810"). If the Company determines that it does not have a controlling financial interest in the real estate, it evaluates whether a contract exists under ASC 606 and whether the buyer has obtained control of the asset that was sold. The Company recognizes a full gain on sale of real estate when the derecognition criteria under ASC 610-20 have been met.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as follows:

Building and improvements	Seven – 39 years
Equipment and furnishings	Five years

Tenant improvements are depreciated over the shorter of the estimated useful life of the assets or the terms of the respective leases.

Earnings Per Share
The Company computes basic earnings per share by dividing the 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.

Leases
The FASB issued ASC Topic 842, Leases, which amended the guidance in former ASC Topic 840. The new leasing standard requires lessees to recognize operating leases on their balance sheets by recording a right-of-use asset ("RoU") and a corresponding lease liability for the rights and obligations associated with operating leases. ASC 842 also modified certain targeted changes to lessor accounting.

The Company adopted ASC 842 effective January 1, 2022 under the modified retrospective approach and elected the optional transition method to apply the provisions of ASC 842 as of the adoption date, rather than to all comparative periods. The Company also elected the practical expedient transition package which permits the Company to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any existing leases as of the effective date.

Lessor Accounting
In July 2018, the FASB issued Accounting Standards Update ("ASU") 2018-11, Leases (Topic 842) – Targeted Improvements ("ASU 2018-11"). ASU 2018-11 provides a practical expedient that allows lessors to combine non-lease components with the related lease components if both (1) the timing and pattern of transfer are the same for the non-lease component(s) and related lease component, and (2) the lease component, if accounted for separately, would be classified as an operating lease. Lessors are permitted to apply the practical expedient to all existing leases on a retrospective (if there is no change to previously reported total revenues and expenses) or prospective basis. The Company elected the practical expedient to combine its lease (right to use an underlying asset) and non-lease components (transfer of a good or service that is not a lease, such as common area maintenance services) that meet the defined criteria and will account for the combined lease component under ASC 842 on a prospective basis. These amounts are reported as rental revenues within the consolidated statements of operations. The adoption of ASC 842 did not have a material impact on the Company's results of operation and cash flows related to lessor leases.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (continued)
Lessee Accounting
The Company, as a lessee, leases office space which is classified as an operating lease upon adoption of the new leasing standard. ASC 842 requires the Company to record a RoU asset and related lease liability for the rights and obligations associated with the operating lease. The adoption of ASC 842 resulted in the recognition of a right-to-use asset of $1,426,803 and operating lease liability of $1,426,803 as of January 1, 2022. Results for periods beginning prior to January 1, 2022, continue to be reported in accordance with the Company's historical accounting treatment. The adoption of ASC 842 did not have a material impact on the Company's result of operations and cash flows. See Note 16.

Reference Rate Reform
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. At December 31, 2022, the Company replaced one of its contracts from LIBOR to SOFR. The other index was replaced in March 2023. The adoption of ASC 848 did not have a material impact on the Company's results of operation and cash flows. See Note 10.

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.

Reclassification
Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net income.

Subsequent Events
These consolidated financial statements were approved by management and available for issuance on May 15, 2023. Management has evaluated subsequent events through this date.

3 – 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.

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

March 31, 2023	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Marketable securities	$ 63,843,496	$ -	$ -	$ 63,843,496
Interest rate swaps	-	1,017,577	-	1,017,577
Total assets measured at fair value	$ 63,843,496	$ 1,017,577	$ -	$ 64,861,073

December 31, 2022	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Marketable securities	$ 61,287,084	$ -	$ -	$ 61,287,084
Interest rate swaps	-	1,263,291	-	1,263,291
Total assets measured at fair value	$ 61,287,084	$ 1,263,291	$ -	$ 62,550,375

The Company values investments in marketable securities that are freely tradable and are listed on a national securities exchange at their last quoted sales price as of the valuation date.

The interest rate swap agreements are valued at fair value using a swap valuation model that utilizes an income approach using observable market inputs including interest rates London Interbank Offered Rate ("LIBOR"), Secured Overnight Financing Rate ("SOFR") and credit default swap rates.

The carrying values of cash and cash equivalents, restricted cash, receivables, loans payable 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, the 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.

4 – RENTAL PROPERTIES, NET

Rental properties consist of the following:

	March 31, 2023 (unaudited)	December 31, 2022 (audited)
Land	$ 27,376,418	$ 27,376,418
Buildings and improvements	59,501,179	58,539,340
Furniture and fixtures	1,107,304	1,107,304
Equipment	2,994,733	2,994,733
Impairment of land and building	(1,337,269)	(1,337,269)
	89,642,365	88,680,526
Less: accumulated depreciation	11,983,694	11,248,109
	$ 77,658,671	$ 77,432,417

Depreciation expense for the three months ended March 31, 2023 and 2022 was $735,585 and $575,486, respectively.

5 – PROPERTY ACQUISITION

The Company acquired Wisconsin for $27,700,000 on February 2, 2022. The purchase price, including acquisition costs, was allocated based on the relative fair value of the assets and liabilities acquired and consists of the following:

Land	$ 6,279,063
Building	19,035,404
In-place leases	6,723,530
Below market leases	(2,332,903)
Net purchase price	$ 29,705,094

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 – MARKETABLE SECURITIES

Cost and fair value information for common stock securities are as follows:

	March 31, 2023 (unaudited)	December 31, 2022 (audited)
Cost	$ 897,173	$ 897,173
Fair value	63,843,496	61,287,084
Net unrealized gain	$ 62,946,323	$ 60,389,911

There were no sales of marketable securities during the three months ended March 31, 2023 or the year ended December 31, 2022.

7 – 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, 2023 and the year ended December 31, 2022, respectively, are as follows:

	March 31, 2023 (unaudited)	December 31, 2022 (audited)
Balance, beginning of period	$ 112,466,720	$ 119,818,866
Contributions	3,950,983	4,078,630
Distributions	(1,771,187)	(11,523,866)
Consolidation of Orange Syndicate *	-	(8,250,412)
Reclassification from rental properties	-	1,609,869
Loss on abandonment of investment in real estate venture	-	(527,058)
Equity in earnings, net	1,533,399	7,260,691
Net investments, end of period	$ 116,179,915	$ 112,466,720

* Represents the reclassification of the investment in Orange to rental properties, net as a result of the consolidation of this real estate venture with the Company's consolidated financial statements effective February 2022 (Note 1).

7 – 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, 2023 (unaudited)	December 31, 2022 (unaudited)
Assets, net of accumulated depreciation and amortization of $273,032,436 and $267,409,995	$ 602,814,186	$ 620,007,076
Liabilities	376,136,897	373,566,309
Equity	$ 226,677,289	$ 246,440,767

	Three Months Ended March 31, 2023 (unaudited)	Three Months Ended March 31, 2022 (unaudited)
Rental and other revenues	$ 34,735,015	$ 31,951,909
Unrealized gain on marketable securities	8,921	-
Net gains on disposal of rental property	-	2,220,361
Total income	34,743,936	34,172,270
Direct operating expenses	15,974,808	15,893,827
Financing expenses	5,123,759	3,857,440
Depreciation and amortization expense	7,321,481	6,731,168
Income taxes	441,244	449,421
Total expenses	28,861,292	26,931,856
Net income	$ 5,882,644	$ 7,240,414

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' 2022 report. The assets and liabilities of this investment in real estate venture are approximately 32% and 29%, respectively, of the total assets and liabilities above at March 31, 2023 and 31% and 30%, respectively, at December 31, 2022. The net income of this investment in real estate venture is approximately 84% and 60% of the total net income above for the three months ended March 31, 2023 and 2022, respectively.

7 – INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Investments in real estate ventures consist of the following:

	% Of Ownership (a)	
Investee	March 31, 2023	December 31, 2022
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	35.7135	35.7135
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	31.4393	31.4393
Dollar Land Associates, LLC	37.6214	37.6214
Farmingville Associates (b)	10.6223	10.6223
Fort Lee Joint Venture	30.0000	30.0000
Hastings Drive I, LLC	48.8289	48.8289
Herald Owners, LLC	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
Pequannock 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.

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. This mortgage was set to mature in August 2023. The first option was exercised in April 2023 to extend the mortgage by one year through August 2024 by paying a 0.25% fee.

8 – LOANS RECEIVABLE, REAL ESTATE VENTURE

Loans receivable from one real estate venture affiliate in the amount of $1,893,750 and $1,875,000 as of March 31, 2023 and December 31, 2022, respectively, are unsecured, due on demand and bear interest at 5.0%. As of March 31, 2023 and December 31, 2022, accrued interest of $393,750 and $375,000, 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, 2023 and December 31, 2022.

9 – LINE OF CREDIT

In March 2021, Merchants obtained a three-year $40 million credit facility (the "Credit Facility") with Valley National Bank, expiring in February 2024. The Credit 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. Initially, the interest rate on the Credit Facility was LIBOR plus 1.25%. The loan agreement was amended on February 1, 2023, changing the interest rate on the Credit Facility to SOFR plus 1.25%. The Credit 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.

No amounts were outstanding under the Credit Facility as of March 31, 2023 and December 31, 2022.

There was no interest expense on the Credit Facility during the three months ended March 31, 2023 and the year ended December 31, 2022.

10 – 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, 2023 and 2022, interest expense was $68,586 and $67,367, respectively. The mortgage payable balance at March 31, 2023 and December 31, 2022 was $8,018,042 and $8,081,082, 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.

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. 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 $8,018,042 and $8,081,082 at March 31, 2023 and December 31, 2022, 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. In March 2023, variable LIBOR was replaced with SOFR.

10 – MORTGAGES PAYABLE (Continued)

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 Index not to exceed 4.35%. Merchants is a limited guarantor of this loan. For the three months ended March 31, 2023 and 2022, interest expense was $47,268 and $48,568, respectively. The mortgage payable balance at March 31, 2023 and December 31, 2022 was $4,324,768 and $4,356,029, 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. 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, 2023 and 2022, interest expense was $39,671 and $40,641, respectively. The mortgage payable balance at March 31, 2023 and December 31, 2022 was $3,958,639 and $3,983,337, 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, 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. 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, 2023 and 2022, interest expense was $70,254 and $72,952, respectively. The mortgage payable balance at March 31, 2023 and December 31, 2022 was $7,180,974 and $7,252,352, respectively. University is currently not in compliance with the ratio; however, University is current in its debt service payments.

The Company has a receive-variable (SOFR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan on University. 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 $7,180,974 and $7,252,353 at March 31, 2023 and December 31, 2022, 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.

10 – MORTGAGES PAYABLE (Continued)

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, 2023 and 2022, interest expense was $36,422 and $37,763, respectively. The mortgage payable balance at March 31, 2023 and December 31, 2022 was $4,135,024 and $4,174,198, respectively. The loan is subject to a debt service ratio of 1.25, which shall be tested annually.

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 has provided a Guaranty for payment and performance of this mortgage. In addition, Merchants has provided an environmental indemnity guaranty (the "Guaranty"). Management believes that there is no liability under the Guaranty at March 31, 2023. 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 three months ended March 31, 2023 and 2022 interest expense was $141,270 and $91,041, respectively. The mortgage payable balance at March 31, 2023 and December 31, 2022 was $16,620,000.

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

Year Ending December 31,		
2023	$	4,710,731
2024		1,004,320
2025		7,446,810
2026		805,884
2027		835,905
Thereafter		29,433,797
		44,237,446
Less: unamortized debt issuance costs		348,513
	$	43,888,933

11 – LEASE ARRANGEMENTS (AS LESSOR)

Building space is leased under non-cancelable operating leases. Certain tenant leases provide for minimum annual rent, a percentage of tenant sales in excess of stipulated amounts, real estate taxes, utility costs and other expenses. Certain leases also provide for renewal and termination options.

11 – LEASE ARRANGEMENTS (AS LESSOR) (Continued)

Minimum rental revenues under existing non-cancelable leases as of March 31, 2023 are approximately as follows:

Year Ending December 31,	
2023	$ 5,615,000
2024	6,892,000
2025	6,533,000
2026	6,406,000
2027	6,333,000
Thereafter	38,161,000
	$ 69,940,000

For the three months ended March 31, 2023 and 2022, one tenant represented approximately 16% and 17% of rental income, respectively.

The components of rental revenue are as follows:

	March 31, 2023 (unaudited)	March 31, 2022 (unaudited)
Fixed lease payments	$ 2,025,619	$ 1,877,799
Variable lease payments	305,403	164,998
	$ 2,331,022	$ 2,042,797

12 – 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, 2023 (unaudited)	Three Months Ended March 31, 2022 (unaudited)
Current		
Federal	$ 427,833	$ 643,281
State	431,667	315,309
	859,500	958,590
Deferred		
Federal	(132,353)	(2,030,736)
State	110,481	(53,480)
	(21,872)	(2,084,216)
Income tax provision (benefit) per consolidated statements of operations	$ 837,628	$ (1,125,626)

12 – INCOME TAXES (Continued)

Components of deferred tax assets and liabilities are as follows:

	March 31, 2023 (unaudited)		December 31, 2022 (audited)	
	Components	Tax Effect	Components	Tax Effect
Deferred tax assets				
Bad debt expense	$ 23,378	$ 6,921	$ 164,118	$ 48,583
Depreciation - federal	798,957	167,782	126,865	26,642
Depreciation - state	21,129,947	2,301,051	21,129,947	2,301,051
Interest expense deduction limitation	3,043,550	770,066	1,521,775	319,573
Net operating losses	500,354	105,074	213,678	44,872
Impairment loss	1,308,732	387,425	1,308,732	387,425
Prepaid rent	1,570,278	464,850	1,879,584	556,416
	28,375,196	4,203,169	26,344,699	3,684,562
Deferred tax liabilities				
Amortization	1,846,229	546,541	1,846,229	546,541
Bad Debt Expense	3,421	1,012	-	-
Depreciation - federal	18,209,207	5,100,581	18,905,883	5,246,885
Deferred gain on disposal of rental property	32,847,128	9,723,768	32,847,128	9,723,769
Deferred revenue	9,924,509	2,937,961	9,638,292	2,853,232
Other	6,857,392	2,030,002	6,614,404	1,958,068
Unrealized gain on interest rate swap	939,079	277,996	1,200,887	355,500
Unrealized gain on marketable securities	63,204,441	13,904,977	60,645,947	13,342,108
	133,831,406	34,522,838	131,698,770	34,026,103
Net deferred tax liability	$105,456,210	$30,319,669	$105,354,071	$30,341,541

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

13 – 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, 2023 and 2022 were $1,988,553 and $2,575,033, respectively.

As of March 31, 2023 and December 31, 2022, the amount due from related parties for management fees, leasing commissions, supervisory fees and other charges was $1,290,488 and $3,075,213, respectively. These amounts are non-interest bearing and are due on demand.

As of March 31, 2023 and December 31, 2022, the amount due to related parties to cover temporary cash shortfalls was $463,613 and $561,900, respectively. These amounts are non-interest bearing and are due on demand.

Loans to employees for the purchase of membership interests in certain real estate ventures totaling $2,748,296 and $2,627,973 at March 31, 2023 and December 31, 2022, 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 real estate ventures.

14 – 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 $6,700 for 2023 and $6,100 for 2022. The Company's matching contributions for the three months ended March 31, 2023 and 2022 were $26,076 and $24,594, respectively.

15 – 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 March 31, 2023 in the amount of $40,346,300 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, 2023 and December 31, 2022. The mortgage payable was set to mature in April

15 – COMMITMENTS AND CONTINGENCIES (Continued)

Guarantees and Indemnification (continued)
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. Herald exercised its first extension option on February 1, 2023, extending the maturity date to April 5, 2024.

The Company has signed limited suretyship and guarantee agreements with the mortgagees of two investees as of March 31, 2023 and December 31, 2022, which own rental real properties with mortgages outstanding of approximately $18,715,000 and $18,761,000 as of March 31, 2023 and December 31, 2022, 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, 2023 and December 31, 2022.

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 vested 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. 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 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, 2023, $618,750 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, 2023 and December 31, 2022, the loan balance, including accrued interest, was $2,178,985 and $2,068,426, respectively. These amounts are included in receivables from employees on the accompanying consolidated balance sheets.

15 – COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreement (continued)
For the three months ended March 31, 2023, the CEO's total compensation was $410,767, which consisted of $171,017 for base salary, a $171,000 bonus and a $68,750 New LT Cash Incentive. For the three months ended March 31, 2022, the CEO's total compensation was $359,286, which consisted of $166,036 for base salary, a $124,500 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 it is earned.

For the three months ended March 31, 2023 and 2022, the Company has determined that the stock compensation expense is not material to the financial statements as a whole. Stock compensation expense of $312,700 will be recorded upon 100% vesting.

Capital Calls and Investment Funding
In the normal course of business, the Company may be requested to make additional capital contributions to its real estate investments. As of the date of this report, the Company has not received any capital calls from its real estate investments.

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.

16 – LEASES (AS LESSEE)

The Company leases office space from 708 Third Avenue Holdings, LLC, in which it has an investment. The lease expires on January 23, 2029 and falls under ASC 842, as discussed in Note 2. For the three months ended March 31, 2023 and 2022, the operating lease cost was $58,619 and $56,301, respectively, and is included in the consolidated statement of operations.

16 – LEASES (AS LESSEE) (Continued)

The following summarizes the line items in the consolidated balance sheets which include amounts for the operating lease:

	March 31, 2023 (unaudited)	December 31, 2022 (audited)
Operating right-of-use asset	$ 1,200,104	$ 1,246,210
Current maturities of operting lease liability	$ 180,197	$ 177,504
Operating lease liability, less current maturities	1,031,496	1,077,977
Total operating lease liability	$ 1,211,693	$ 1,255,481

Additional disclosures regarding the Company's lease as lessee are as follows:

	Three Months Ended March 31, 2023 (unaudited)	Three Months Ended March 31, 2022 (unaudited)
Cash paid for amounts included in the measurement of lease liability	$ 54,801	$ 54,801
Weighted average remaining lease term	5.8 years	6.8 years
Weighted average discount rate	3.55%	3.55%

The maturities of operating lease liability as of March 31, 2023 were as follows:

Year Ending December 31,	
2023	$ 164,403
2024	230,334
2025	232,560
2026	232,560
2027	232,560
Thereafter	251,940
Total lease payments	1,344,357
Less: interest	132,664
Present value of lease liability	$ 1,211,693