

Audited Financial Statements

(In thousands of U.S. dollars, except where otherwise indicated)

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

For the year ended December 31, 2021

6/2/22 

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Report of Independent Auditors

To the Member of **Hancock REIT Plaza Square Urban Renewal, LLC**

Opinion

We have audited the financial statements of **Hancock REIT Plaza Square Urban Renewal, LLC** (the "Company"), which comprise the statement of assets, liabilities and member's equity, including the schedule of real estate investment, as of December 31, 2021, and the related statements of operations, changes in member's equity and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021, and the results of its operations, changes in its member's capital and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

March 28, 2022

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Statement of Assets, Liabilities, and Member's Equity (In thousands of U.S. dollars, except where otherwise indicated)

	Note	As at December 31, 2021
Assets		
Real Estate Investment, at Fair Value (Cost: \$154,656)	5	\$169,000
Cash		909
Prepaid Expenses		39
Total Assets		\$169,948
Liabilities		
Mortgage Payable (Amortized Cost: \$73,728)	6	\$78,648
Due to Related Parties	8	72,489
Accounts Payables and Accrued Liabilities		798
Total Liabilities		\$151,935
Member's Equity		\$18,013
Total Liabilities and Member's Equity		\$169,948

The accompanying notes are an integral part of the financial statements.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Schedule of Real Estate Investment

(In thousands of U.S. dollars, except where otherwise indicated)

Description	Location	% of Ownership	Type of Property	Cost	Fair Value	Fair Value as % of Member's Equity as at December 31, 2021
Plaza Square Apartments	New Brunswick, NJ	100%	Multi-Family	\$154,656	\$169,000	938%
Total Real Estate Investment				\$154,656	\$169,000	938%
Cash				909	909	5%
Total Invested Assets				\$155,565	\$169,909	943%
Other Assets Less Liabilities				(146,976)	(151,896)	(843%)
Total Member's Equity				\$8,589	\$18,013	100%

The accompanying notes are an integral part of the financial statements

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Statement of Operations

(In thousands of U.S. dollars, except where otherwise indicated)

	Note	For the year ended December 31, 2021
Revenue		
Rental Income		\$6,367
Expenses		
Interest Expenses		\$3,147
Payment in Lieu of Taxes - Annual Services Charge		1,035
General and Administration Fees		95
Total Expenses		\$4,277
Net Investment Income		\$2,090
Unrealized Gain on Real Estate Investment	5	\$17,905
Unrealized Gain on Mortgage Payable	6	\$105
Net Increase in Member's Equity Resulting from Operations		\$20,100

The accompanying notes are an integral part of the financial statements.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Statement of Changes in Member's Equity

(In thousands of U.S. dollars, except where otherwise indicated)

	Note	For the year ended December 31, 2021
Member's (Deficit), Beginning of Year		(\$2,087)
From Operations:		
Net Investment Income		\$2,090
Net Unrealized Gain on Real Estate Investment and Mortgage Payable	5,6	18,010
Increase in Member's Equity Resulting from Operations		\$20,100
Net Increase in Member's Equity		\$20,100
Member's Equity, End of Year		\$18,013

The accompanying notes are an integral part of the financial statements.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Statement of Cash Flows

(In thousands of U.S. dollars, except where otherwise indicated)

	Note	For the year ended December 31, 2021
Operating Activities:		
Increase in Member's Equity Resulting from Operations		\$20,100
Items Not Affecting Cash:		
Unrealized Gain on Real Estate Investment	5	(\$17,905)
Unrealized Gain on Mortgage Payable	6	(105)
Change in Working Capital:		
Change in Accounts Payables and Accrued Liabilities		521
Change in Prepaid Expenses		(11)
Change in Due to Related Parties		(2,070)
Cash Flows Provided by Operating Activities		\$530
Investing Activities:		
Capitalized Costs on Real Estate Investment		(\$95)
Cash Flows (Used in) Investing Activities		(\$95)
Increase in Cash		\$435
Cash, Beginning of Year		474
Cash, End of Year		\$909
Supplemental Cash Flow Information:		
Interest Paid		\$3,147

The accompanying notes are an integral part of the financial statements.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

1. GENERAL INFORMATION

Hancock REIT Plaza Square Urban Renewal, LLC (the "Company") is a New Jersey Limited Liability Company formed on April 7, 2017. The Company was formed to acquire an apartment complex consisting of 415 multifamily residential rental units and 5,012 square feet of retail space, plus approximately 632 parking spaces located in New Brunswick, New Jersey (the "Property") and to assume the rights and obligations under a Master Lease Agreement (the "Master Lease") for the Property. The sole member of the Company is Manulife U.S. Real Estate REIT I, LLC (the "Member"). The Company acquired the Property on June 21, 2017 with a capital contribution from the Member. Pursuant to the Property's purchase assignment agreement, Hancock REIT Plaza Square Operating Company, LLC (the "Plaza Square Operating"), an affiliate, is the master tenant under the Master Lease.

The Company shall continue to operate perpetually unless terminated by terms of the Limited Liability Company Agreement.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company qualifies as an Investment Company as defined in Accounting Standards Codification ("ASC") 946 *Financial Services – Investment Companies*. The Company reports as an Investment Company in accordance with U.S. GAAP. Comparative figures are not considered necessary as it would not provide meaningful information to the users.

All amounts expressed in the financial statements are in U.S. currency, which is the Company's functional and reporting currency for the purposes of preparing these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company are as follows:

a. Fair Value Measurement

Fair value is the price that would be received to sell an asset, or the price paid to transfer a liability, in an orderly transaction between market participants. The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

b. Real Estate Investment

Real estate investment is the property held to earn rental income, for capital appreciation, or both. The property is not for sale in the ordinary course of business, used in the production or supply of goods or services, or for administrative purposes. Real estate investment acquisitions, sales and dispositions are recorded as of the date of closing. Real estate investment is measured at the purchase price plus closing costs on initial recognition and subsequently at fair value with any change therein recognized in the Statement of Operations. Real estate investment is subject to renovations or improvements at regular intervals. The costs of major renovations and improvements are capitalized. To the extent that lease commissions paid increase the future economic benefits of the real estate property, they are capitalized as part of the real estate investment. Fair value is determined using external appraisals that are based on the highest and best use of the real estate property, conducted by real estate valuation experts. The valuation techniques used follow the principles of *Fair Value Measurements* ("ASC 820") and include discounted cash flows ("DCF") and comparable sales analysis and include both observable and unobservable inputs. Inputs include existing and assumed tenancies, market data from recent comparable

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

transactions, future economic outlook, market risk assumptions, discount rates and capitalization rates. The significant unobservable inputs are the terminal capitalization rate and the discount rate.

Any gain or loss on disposal of a real estate investment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in realized gains and losses.

c. Financial Instruments

The financial instruments of the Company are classified as follows:

i. Cash

Cash consists of cash on deposit. Cash is stated at cost, which approximates its fair value.

ii. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of net accounts payable on company operations and are carried at amortized cost. The fair value of these financial assets closely approximates their carrying values, due to their short-term nature.

iii. Due to Related Parties

Due to related parties consist of operating, capital expenditures and other payments made by related parties on behalf of the Company and are carried at amortized cost. The fair value of these financial liabilities closely approximates their carrying values, due to their short term nature.

iv. Mortgage Payable

Mortgage payable is carried at fair value. The fair value is determined using the future payments of principal and interest of the actual outstanding mortgage, discounted at interest rates based on publicly available benchmark treasury rates and credit spreads. Credit spreads are sourced from Altus Group, a nationally accredited independent service provider and are reviewed on an ongoing basis with consideration provided to recent financings and other market data.

Interest expense incurred on the mortgage payable is recorded on an accrual basis and is expensed during the year.

Financing costs are charged to expense as incurred and not deferred.

d. Revenue Recognition

The Company recognizes rental income in accordance with ground lease agreement, over the term of the lease as it becomes receivable.

e. Interest Expenses

Finance expenses comprise interest expense on borrowings, and are reflected in the accompanying financial statements when incurred. Borrowing costs are recognized in the Statement of Operations when incurred.

f. Payment in Lieu of Taxes - Annual Services Charge

Payment in lieu of taxes - annual services charge was incurred per the Financial Agreement (the "Agreement") between the Company and the City of New Brunswick and is charged to expenses as incurred during the year. The details of the Agreement are disclosed in Note 7.

g. Income Taxes

No provision for income taxes is necessary in the financial statements of the Company because the Company is a single member limited liability company and is a disregarded entity for federal and state income tax purposes.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

h. Contingencies

Certain conditions may exist which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

4. USE OF JUDGEMENTS AND ASSUMPTIONS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

As a result of COVID-19 and the associated economic environment, significant measurement uncertainty exists in determining the fair value of the real estate investment when preparing the Company's financial statements. The key assumptions impacting the valuation of real estate investments which may be impacted by COVID-19 include, but are not limited to, assumptions related to market rents, leasing costs, vacancy rates, discount rates and capitalization rates. The Company will continue to monitor the economic environment and the effects of COVID-19 on the key assumptions used in the valuations given the potential to create uncertainty in the valuation of the Company's real estate investment.

Valuation of Real Estate Investment

The fair value of real estate investment is determined by a nationally accredited independent appraiser using recognized valuation techniques and the principles of ASC 820. The significant methods and assumptions used in determining the fair value of real estate investment are set out in Note 5.

Valuation of Mortgage Payable

The fair value of mortgage payable is determined by a nationally accredited independent service provider using recognized valuation techniques and the principles of ASC 820. The significant methods and assumptions used in determining the fair value of mortgage payable are set out in Note 6.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

5. REAL ESTATE INVESTMENT

	For the year ended December 31, 2021
Fair Value, Beginning of Year	\$151,000
Capitalized Costs	95
Unrealized Gain on Real Estate Investment	17,905
Fair Value, End of Year	\$169,000

Real estate investment is carried at fair value. Real estate investment owned is initially recorded at the purchase price plus closing costs. Development costs and major renovations are capitalized as a component of costs, and routine maintenance and repairs are charged to expense as incurred. In each quarter following the purchase, each real estate investment is recorded at appraised value obtained quarterly from a nationally accredited independent appraiser.

Appraised values are generally calculated using the income approach. The two primary income approaches that may be used are the DCF and the direct capitalization method ("DCM"). DCF calculates the present values of the future cash flows over a specified time period, including the potential proceeds of a deemed disposition, to determine market value. DCM measures the relationship of value to the stabilized net operating income, normally at the first year. Both the DCF and DCM approaches convert the earnings of a property into an estimate of value. DCM approach was not used in valuing the Company's real estate investment. The market transaction or direct comparison approach may also be used, which is based on sound considerations for similarity and comparability between properties. Considerations may include geographic location, physical, legal, and revenue generating characteristics, market conditions and financing terms and conditions.

The Company retains a nationally accredited independent appraiser to perform quarterly and full annual appraisals. The appraisals are reviewed by Altus Group, an independent external appraisal management firm. Quarterly appraisals reflect updated rental income from current leases, assumptions about rental income from future leases reflecting market conditions, and discount, going-in and terminal capitalization rates reflective of the specific property and current investment market. Full annual appraisals generally reflect management's updated budgets for operating and capital expenditures.

	As at December 31, 2021
Discount Rate	6.25 %
Terminal Capitalization Rate	4.75 %

Holding other factors constant, a lower terminal capitalization or discount rate will tend to increase the fair value of real estate property. Changes in fair value based on variations in unobservable inputs generally cannot be extrapolated because the relationship between the directional changes of each input is not usually linear.

The table below presents the sensitivity of the valuation to changes in the most significant assumption underlying the valuation of real estate investment:

Increase/(Decrease) in Fair Value	As at December 31, 2021
Increase in Discount and Terminal Capitalization Rate of 25 bps	(\$7,953)
Decrease in Discount and Terminal Capitalization Rate of 25 bps	\$8,876

The Company has classified real estate investment as Level 3 in the fair value hierarchy. Refer to Note 10 for more details.

As at December 31, 2021, the real estate investment is pledged as security to secure the mortgage payable of \$78,648 (Note 6).

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

6. MORTGAGE PAYABLE

Mortgage payable is carried at fair value, which is determined using the future payments of principal and interest of the actual outstanding mortgage, discounted at the interest rate, based on U.S. Department of Treasury benchmark Treasury bill rate and credit spread of the borrowing entity for similar term.

	For the year ended December 31, 2021
Fair Value, Beginning of Year	\$78,753
Unrealized Gain on Mortgage Payable	(105)
Fair Value, End of Year	\$78,648

The mortgage payable is classified as follows:

	As at December 31, 2021
Due Within 12 Months	\$—
Due After 12 Months	78,648
Total	\$78,648

The table below presents the sensitivity of the valuation to changes in the most significant assumption underlying the valuation of mortgage payable:

Increase/(Decrease) in Fair Value	As at December 31, 2021
Increase in Interest Rate of 25 bps	(\$936)
Decrease in Interest Rate of 25 bps	\$949

The most significant unobservable input is the credit spread which was 1.65% as at December 31, 2021. Holding other factors constant, a decrease in the credit spread will increase the fair value of the mortgage liability.

The Company has classified mortgage payable as Level 3 in the fair value hierarchy. Refer to Note 10 for more details.

The mortgage payable is a term mortgage which bears a contractual interest rate. The mortgage is secured by a registered first mortgage over the specific property and has been provided by a large U.S. financial institution.

During the year ended December 31, 2021, the minimum and maximum mortgage amount borrowed was \$73,728 and \$78,648 on a fair value basis, respectively.

Principal Outstanding as at December 31, 2021				
Property	Maturity Date	Fixed Interest Rate	Amortized Cost	Fair Value
Plaza Square Apartments	June 21, 2027	4.21 %	73,728	78,648
			\$73,728	\$78,648

For the year ended December 31, 2021, the Company incurred interest expenses of \$3,147 on mortgage payable that are presented in the accompanying Statement of Operations.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

7. COMMITMENTS

Financial Agreement

Pursuant to the Property's purchase assignment agreement, the Company is obligated under the agreement with the City of New Brunswick (the "City") dated December 21, 2001. The Agreement sets forth the terms under which the Company will be eligible for real estate tax abatement with the City. In lieu of real estate taxes, an annual service charge, as defined, is charged during the term of the Agreement. The annual service charge is equal to 15% of gross revenues, as defined by the Agreement.

For the year ended December 31, 2021, the service charge was \$1,035.

Minimum annual payments due under the Agreement as of December 31, 2021 are as follows:

	As at December 31, 2021
2022	\$955
2023	955
2024	987
2025	1,003
2026	1,003
Thereafter	7,605
Total	\$12,508

Profit Limitation

In accordance with the Agreement, the Company is subject to a limitation on its profits, which requires any profits, in excess of the allowable net profits, all as defined in the Agreement, to be remitted to the City as an additional service charge. "Allowable net profit" is defined as the amount arrived at by applying the allowable profit rate to the total project costs, as defined. The rate, under provision of the Long Term Tax Exemption Law (N.J.S.A. 40A:20-1), is greater of 12% or 1.25% in excess of the prevailing interest rate of 4.21% per annum, as determined by management. The total project costs are \$148,576. For the year ended December 31, 2021, there were no excess profits due.

	For the year ended December 31, 2021
Total Gross Revenues	\$6,367
Less: Total Operating Expenses	(4,277)
Adjustments to Operating Expenses:	
Allowable Amortization of Project Cost	(9,286)
Net Profit (Loss) per N.J.S.A. 40A:20-1	(\$7,196)
Less: Allowable Annual Net Profit	(17,829)
Excess Loss	(25,025)
Excess Loss, Beginning of Year	(134,861)
Excess Loss, End of Year	(\$159,886)

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

8. RELATED PARTY TRANSACTIONS

Intercompany – Related party

As at December 31, 2021, there is \$72,489 in related party intercompany payables to the Member.

Rental income – Related party

Pursuant to the Property's purchase assignment agreement, the Company is obligated under a thirty-year master lease, dated December 28, 2001, with Hancock REIT Plaza Square Operating, LLC, a related company under common management. Under the terms of this lease Hancock REIT Plaza Square Operating, LLC, leases the Property from the Company.

Future minimum amounts due under the lease as of December 31, 2021 are as follows:

	As at December 31, 2021
2022	\$6,367
2023	6,367
2024	6,553
2025	6,685
2026	6,685
Thereafter	51,254
Total	\$83,911

9. RISK MANAGEMENT

The types of risks that the Company is exposed to are outlined below, including risk concentrations, risk management policies and procedures and methods used to measure these risks. The risk concentrations are provided in the schedule of real estate investment.

The Company may be exposed to the following financial risks: interest rate risk, credit risk and liquidity risk. The Company's risk management practices include the monitoring of compliance with investment restrictions to ensure that the Company is being managed in accordance with stated investment objectives, strategies and securities regulations

a. Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the real estate investment portfolio, such as short-term notes (if any), line of credit payable (if any) and mortgage payable. The Company is exposed to the risk that the values of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The impact of changes in prevailing interest rates on the fair value of the mortgage payable is disclosed in Note 6.

b. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. In addition, tenants may experience financial difficulty and are unable to fulfil their lease commitments or tenants may fail to occupy and pay rent in accordance with lease agreements.

The Company believes that there is limited credit risk inherent in the Company's receivables, based on historical payment behaviors and the security deposits held. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of assets and liabilities.

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

Cash is placed with financial institutions which are regulated.

c. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flows as a result of the timing of rental revenues from the lessee and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

The aggregate indebtedness of the Company as a percentage of the total gross value of the real estate investment portfolio held by the Company is not expected to be in excess of 50%.

As at December 31, 2021	Carrying values	Contractual cash flows	Within a year	1 to 5 years	More than 5 years
Mortgage Payable	\$78,648	\$87,799	\$6,092	\$36,184	\$45,523
Due to Related Parties	72,489	72,489	72,489	—	—
Accounts Payable and Accrued Liabilities	798	798	798	—	—
Other Liabilities	—	—	—	—	—
	\$151,935	\$161,086	\$79,379	\$36,184	\$45,523

The maturity analyses show the contractual undiscounted cash flows of the Company and the financial liabilities on the basis of their earliest possible contractual maturity.

10. FAIR VALUE MEASUREMENT

The Company measures non-financial assets, such as real estate investment, and certain financial instruments, such as mortgage payable, at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Company must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted prices quoted in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: fair value is based on unadjusted quoted prices traded in active markets for identical instruments;

Level 2: fair value is based on models using significant market-observable inputs other than quoted prices for the instruments; and

Level 3: fair value is based on models using significant inputs that are not based on observable market data

HANCOCK REIT PLAZA SQUARE URBAN RENEWAL, LLC

Notes to Financial Statements

[In thousands of U.S. dollars, except where otherwise indicated]

For the year ended December 31, 2020

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following table illustrates the classification of the Company's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2021:

As at December 31, 2021	Level 1	Level 2	Level 3
Assets Measured at Fair Value:			
Real Estate Investment	—	—	169,000
Total Assets Measured at Fair Value	\$—	\$—	\$169,000
Liabilities Measured at Fair Value:			
Mortgage Payable	—	—	78,648
Total Liabilities Measured at Fair Value	\$—	\$—	\$78,648

Fair values are classified as Level 1 when the related security is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Company is required to disclose significant transfers between levels and also a reconciliation of Level 3 assets and liabilities from the beginning of the year to the end of the year. There were no transfers between levels during the year. Note 5 and Note 6 present a reconciliation of real estate investment and mortgage payable respectively from the beginning of the year to the end of the year.

11. FINANCIAL HIGHLIGHTS

Ratio to Average Member's (Deficit)/Equity¹:	For the year ended December 31, 2021
Total Expenses	36.44 %
Net Investment Income	17.81 %

¹ Calculated based on weighted average Member's (Deficit)/Equity

12. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2021, the Plaza Square Apartments property was disposed of for \$173.5M on March 8th, 2022.

Subsequent events were evaluated through to March 28, 2022, the date the financial statements were approved to be issued.

Urban Renewal Entity: Hancock REIT Plaza Square Urban Renewal, L.L.C. (See Note 1)
Annual Calculation of Allowable Net Profit and Excess Profit Charge

Gross Revenue

(1) Total Gross Revenue per audited Statement of Operations

December 31, 2021

\$6,366,950

Adjustments:

(2) Insurance, Operating, and Maintenance Expenses paid by Tenant which are ordinarily paid by Landlord

(3) Vacancy reserves in excess of the allowable reserve of 10% of Gross Revenues

(4) Rental income from an affiliate related to the Project

(5) **Adjusted Total Gross Revenue (sum of (1) through (4))**

\$6,366,950

Expenses:

(6) Total expenses per audited Statement of Operations

\$4,277,152

(The statutes N.J.S.A. 40A:20-15 do not expressly identify what items are to be deducted from gross revenues. City's position is that these statutes be read in pari-materia with N.J.S.A. 40A:20-3)

Adjustments:

(7) Depreciation or Obsolescence

(8) Interest on Debt, except interest which is part of debt service

(9) Income Taxes

(10) Salaries, Bonuses, or Compensation paid, directly or indirectly, to Directors, Management, Officers, Stockholders, Partners, or others persons holding any proprietary ownership interest in the property

(11) Payments for services rendered in excess of reasonable and customary payments to an affiliate or related party

(12) Allowable Amortization of Project Costs

\$9,286,005

(13) **Adjusted Total Expenses (Line (6) less (7) through (12))**

\$13,563,157

(14) **Statutory Net Profit (Line (5) less (13))**

\$(7,196,207)

(15) **Less Allowable Profit**

(Allowable profit 12% (per financial agreement) x Total project cost (Line 17))

\$17,829,130

(16) **Excess Service Charge (Loss) (Line (14) less (15))**

(Please remit to City within 90 days of fiscal Year end with a copy of this Report)

\$(25,025,337)

Excess profit (loss), beginning

\$(134,861,443)

Prior year adjustment to gross revenue

Excess profit (loss), ending

\$(159,886,780)

(17) **Total Project Cost (per "Computation of Total Project Cost per N.J.S.A. 40A:20-3(h)" form)**

\$148,576,081

Certification:

We certify that the information supplied above is complete and accurate and complies with the provisions of N.J.S.A. 40A:20-1. We also understand per the provisions of the financial agreement, the City of New Brunswick may examine and audit all supporting financial records, documents, and papers related to this entity.

Ernst & Young LLP

Chartered Professional Accountants
 Licensed Public Accountants

March 28, 2022