THIS RESEARCH REPORT EXPRESSES SOLELY OUR OPINIONS. We are short sellers. We are biased. So are long investors. So is IIPR. So are the banks that raised money for the Company. If you are invested (either long or short) in IIPR, so are you. Just because we are biased does not mean that we are wrong. Use BOC Texas, LLC's research opinions at your own risk. This report and its contents are not intended to be and do not constitute or contain any financial product advice. Investors should seek their own financial, legal and tax advice in respect of any decision regarding any securities discussed herein. You should do your own research and due diligence before making any investment decisions, including with respect to the securities discussed herein. We have a short interest in IIPR's stock and therefore stand to realize significant gains in the event that the price of such instrument declines. Please refer to our full disclaimer located on the last page of this report.

COMPANY: Innovative Industrial Properties, Inc. | NYSE: IIPR
INDUSTRY: Cannabis REIT

PRICE (AS OF CLOSE 4/13/2022)
USD 183.44
MARKET CAP
USD 5.06 BN

We are short Innovative Industrial Properties, Inc. (the "Company" or "IIPR"), a marijuana bank masquerading as a REIT. IIPR's model is to conduct sale-leaseback transactions with cannabis producers who are otherwise prohibited from borrowing money because of federal regulations.

In exchange for overpaying for properties from cannabis companies and funding the tenant improvements to build out the facilities, IIPR receives repayment of the loan in the form of long-term lease agreements at 11–14% yields. In effect, IIPR is less of a traditional REIT, and more of a marijuana bank, lending to cannabis companies who otherwise would not have access to the banking system to grow their businesses. This works so long as the tenants can repay their loans by continuing to make their lease payments, meaning IIPR's business and valuation is contingent on high quality tenants.

In the last 18 months, we think IIPR's loan book appears to have degraded significantly as the sector has become more competitive and IIPR stretched for lower quality tenants in search of continuing growth. IIPR's largest tenant is a failed SPAC that appears in severe financial distress and was recently sued by investors accusing it of securities fraud and being in effect a Ponzi scheme.

IIPR trades like a safe, boring REIT, at a 3.7% dividend yield. In reality, we think it is marijuana bank whose loan portfolio looks at risk for substantial impairment. Unlike with other REITs, IIPR cannot expect to recover the lost income from defaulting tenants because it appears that the actual values of its properties are substantially below their carrying value on IIPR's balance sheet. IIPR's stock has already priced in robust net income growth in FY 2022, meaning a repricing is likely given the risk of default at its primary tenant and the deteriorating fundamentals of other IIPR portfolio companies.

1. **Parallel: IIPR's Largest Tenant in Default on Debt and Accused of Being Ponzi Scheme in March 2022 Investor Lawsuits**. IIPR's largest tenant is cannabis company Parallel, which tried to go public via SPAC in 2021. The deal collapsed when the sponsor (led by Justin Bieber's manager Scooter Braun) reportedly pulled out after losing confidence in Parallel's business and financial projections. In **March 2022**, several investors filed a lawsuit in Florida against Parallel and its former CEO alleging securities fraud. In the complaint, **which was only unredacted last week,** investors allege that Parallel misrepresented its financial projections, is in default on $350 million in debt, hemorrhages cash and is in essence a "**Ponzi scheme**." A group of creditors filed another lawsuit in N.Y. last month, alleging that Parallel defrauded them and was in default on its debts. Taken together, these lawsuits suggest that Parallel is in severe distress and faces imminent risk of default on its leases.

    a. **Substantial Impairment in Property Value and ~70% Downside in Rental Income in the Event of Parallel Default**. Whereas most REITs can simply re-lease vacant properties in the event of tenant default, we think IIPR will struggle to replace the lost income. That's because IIPR's model is to overpay cannabis companies for properties as a form of lending, recouping the loan through an above market, long-term lease. This means a risk of severe markdowns if Parallel defaults. IIPR purchased its Pittsburgh property from Parallel for $42 million, nearly **double the price paid by Parallel to acquire the same property the day before Parallel flipped it to IIPR**. With a further $26 million in tenant improvements, IIPR effectively loaned $46 million to Parallel on top of the real estate purchase on the promise that Parallel would repay the loan in the form of a long-term lease. If we look at the portfolio of Parallel properties, based on the price paid by Parallel before flipping them to IIPR, we estimate that the residual value of the properties is a fraction of the carrying value of the properties on IIPR's balance sheet and that even assuming a 10% yield, rent from a replacement tenant would likely be 70% lower.

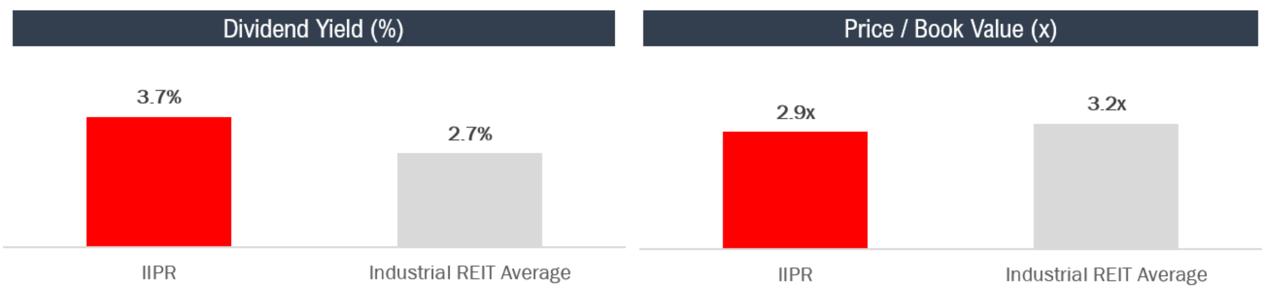
2. **Second Largest Tenant Accused of Fraud in Lawsuit between Founders**. IIPR's second largest tenant is a private California cannabis company, Kings Garden. In May 2021, its co-founder sued Kings Garden and its executives alleging unlawful and

fraudulent conduct with respect to Kings Garden's financial, regulatory and tax reporting. Notably, the lawsuit accused Kings Garden of falsifying books and records and of selling substantial quantities of illegal cannabis on the black market. The complaint was recently refiled in Florida court. In another action filed in 2019, an investor filed a complaint alleging self-dealing and "irregular" transactions. While we have no view on the merits of the complaints and none of these lawsuits have resulted in adverse outcomes for the cannabis company, the Kings Garden allegations should concern investors not only because of conduct alleged but also because the market value of the properties appears to be substantially lower than IIPR carries them on its balance sheet – a theme consistent across IIPR's portfolio. If we look at the portfolio of Kings Garden properties, based on the price paid by Kings Garden before flipping them to IIPR, we estimate that the residual value of the properties is a fraction of the carrying value of the properties on IIPR's balance sheet and that even assuming a 10% yield, rent from a replacement tenant would likely be more than 80% lower.

3. **IIPR's Listed Tenants Struggling with Falling Share Prices (-46%) and worsening cash flows**. The problems extend beyond Parallel. Nine of IIPR's tenants are publicly listed, representing 52% of IIPR's portfolio by square footage. On average, the stock prices of these tenants are down 46% in the past twelve months, which is particularly deadly for cannabis companies that must issue equity to raise capital. This creates a cycle of equity raises and falling stock prices, raising their cost of capital. Most of these companies report negative net income and negative free cash flows. This matters because IIPR's stock price is contingent on the financial health of its tenant portfolio and the ability of its cannabis companies to continue to pay high lease rates over the next 15-20 years. We think falling share prices and deteriorating financials amongst IIPR's borrowers should cause investors to reprice IIPR's shares, given the mounting risks to its long-term loan book.

Having been one of the top performing stocks in the NYSE over the past five years, today IIPR trades as if it were a boring REIT – with a low dividend yield of 3.7% in line with high-quality industrial REITs. This lofty valuation reflects a perception among investors that IIPR is low risk and will continue to raise and deploy capital at attractive yields in order to double its rental income by 2024.

IIPR Trades as if it were a Low-Risk Industrial REIT



Source: Capital IQ

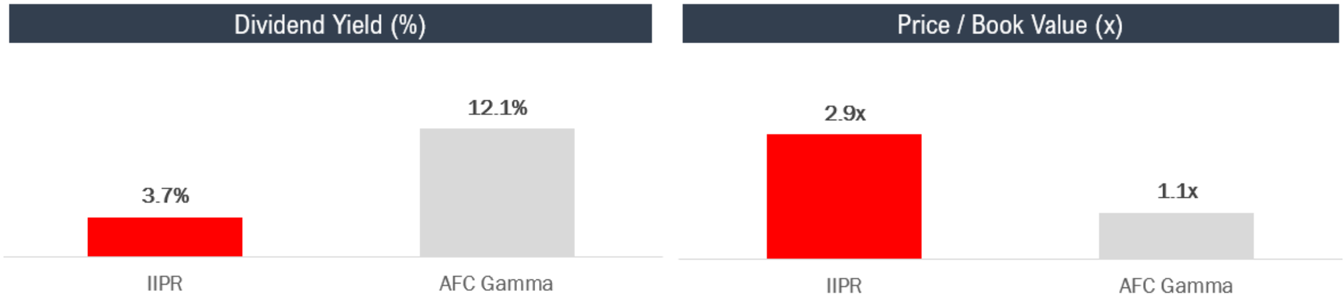
IIPR Revenue Projections

(USDm)	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
	Historical		Cons. Estimates		
Revenue	117	205	280	347	443
Growth	*162%*	*75%*	*37%*	*24%*	*28%*

Source: Capital IQ

But we think IIPR is more akin to a high-risk cannabis bank, providing de facto loans to cannabis companies in exchange for long term leases. This is significant, as a book of loans to cannabis companies should not trade at the same book multiple or yield as real estate assets. Take for example AFC Gamma (NASDAQ: AFC) – a Nasdaq listed cannabis loan provider. AFC Gamma trades a 12% dividend yield and just 1.1x book value.

We think IIPR is more akin to a cannabis lender – which trade at substantially lower multiples



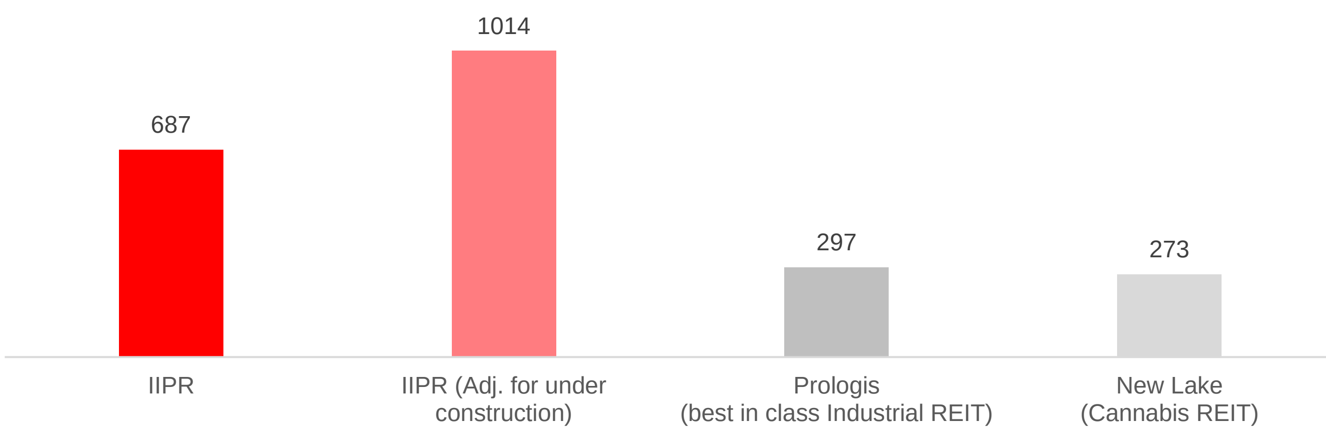
Source: Capital IQ as of 04/13/22

The imminent risk of default of IIPR's largest tenant highlights this critical difference. Unlike with other REITs, IIPR cannot expect to recover the lost income and we suspect will most likely need to book a significant impairment on the assets.

Wet think of Parallel as the canary in the coal mine – demonstrative of broader risk that we believe exists across much of IIPR's portfolio; long-term leases made to low credit quality tenants with significant downside in the event of default.

The detachment in IIPR's share price from any tangible real estate value is demonstrated by its EV/square foot, which is nearly $700 – $1,000/PSF, vs best in class industrial REIT Prologis which trades at $300 per square foot.

EV/ Sq Ft ($)



Source: Capital IQ, Company Filings

Ultimately, IIPR's stock price is simply a bet that its cannabis tenants can continue to pay rent at above market rates for the next 15–20 years. Tenant quality is paramount, making the severe financial distress and likely default of IIPR's largest tenant a hammer blow to IIPR's perception as a safe, boring REIT. As tenants continue to struggle, we think investors will find much less value in IIPR's property portfolio than they previously assumed.

1. Parallel: IIPR's Largest Tenant in Default on Debt and Accused of Being Ponzi Scheme in March 2022 Investor Lawsuits

IIPR is less of a traditional REIT and more akin to a **marijuana bank**, lending to cannabis companies who otherwise would not have access to the banking system to grow their businesses. The Company provides financing to cannabis companies through sale-leaseback transactions by purchasing their properties for above market prices in exchange for signing long-term lease agreements at yields as high as 15%.

This works so long as the tenants can repay their loans by continuing to make their lease payments, making tenant quality the lynchpin of IIPR's valuation and future cash flow projections.

Source: IIPR Presentation

In the last 18 months, IIPR's loan book appears to have degraded significantly as the sector has become more competitive and IIPR stretched for lower quality tenants in search of continuing growth. Nowhere is this more evident than with IIPR's largest tenant, a failed SPAC that **last month** was accused by investors in lawsuits of being akin to a Ponzi scheme.

As of the most recent quarter,[1] IIPR's largest tenant was SH Parent, Inc. ("Parallel"), which accounted for 12% of IIPR's rental income in the period.[2]

	For the Three Months Ended September 30, 2021	
	Number of Leases	Percentage of Rental Revenue
SH Parent, Inc. ("Parallel")	4	12 %
PharmaCann Inc.	5	12 %
Kings Garden Inc.	6	8 %
Ascend Wellness Holdings, Inc.	3	8 %
Green Thumb Industries, Inc.	3	7 %

Source: IIPR 2021 Q3 10-Q

IIPR acquired its first two properties from Parallel in 2020. In 2021, IIPR did two more sale-leaseback transactions with Parallel – representing a total investment of $203 million including committed tenant improvements.

[1] Q3 2021 is the most recent quarter for which a tenant concentration breakdown is available.
[2] IIPR's most recent 10-K lists Parallel as its second largest tenant over the full year (2021), but as of the most recently disclosed quarter (Q3 2021) Parallel was disclosed as being the largest tenant.

IIPR Parallel Acquisitions

$m Property	Year Acquired	Rentable Sq Ft	Investment to Date	Remaining Investment	Total Investment
Parallel Florida Portfolio	2020	593,000	104	4	108
Parallel PA	2021	239,000	66	2	68
Parallel TX	2021	63,000	7	20	27
Total		**895,000**	**177**	**26**	**203**

Source: IIPR 2021 10-K

Parallel is a private cannabis company based in Florida. In February 2021, Parallel announced it was going public via SPAC at a valuation of $1.9 billion. In its SPAC presentation, Parallel projected that it would achieve revenues of $785 million in 2022, which turned out to be fiction.

Six months later, in September 2021, the sponsor, led by Justin Bieber's manager Scooter Braun, called off the SPAC deal. Although no reason was officially given, it was reported that the sponsor backed out of the deal because it had lost confidence in Parallel's business and its ability to deliver on its lofty financial projections. Two months later, Parallel's CEO resigned following the disclosure that Parallel had defaulted on its debt. The SPAC deal appears to have been Parallel's last chance at avoiding implosion.

In **March 2022**, several investors filed a lawsuit in the Southern District of Florida against Parallel and its former CEO alleging securities fraud. In a complaint that was only unredacted **last week**, investors claimed that Parallel misrepresented its financial projections, was in default on $350 million in debt, was hemorrhaging cash and was in essence a "Ponzi scheme."

Case 9:22-cv-80360-AMC Document 59 Entered on FLSD Docket 04/04/2022 Page 1 of 47

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

TRADEINVEST ASSET MANAGEMENT COMPANY (BVI) LTD., FIRST OCEAN ENTERPRISES SA, and TECHVIEW INVESTMENTS LTD.,

Plaintiffs,

-against-

WILLIAM "BEAU" WRIGLEY, JR., JAMES HOLMES, JAMES WHITCOMB, SH PARENT INC. d/b/a PARALLEL, SURTERRA HOLDINGS INC., GREEN HEALTH ENDEAVORS, LLC, PE FUND LP, and ROBERT "JAKE" BERGMANN,

Defendants.

Case No. 22-CV-80360-AMC

COMPLAINT

JURY TRIAL DEMANDED

13. In fact, the Securities Defendants had no basis to represent that the SAFE would tide the Company over until the end of 2Q22—or even through the fall of 2021. The Company had defaulted, and was continuing to default, on its outstanding debt; it had incurred other obligations (that it also couldn't pay); its projections were an inflated fantasy; it needed the SAFE to make Ponzi-like payments to its other investors; and these and other performance issues meant it would run out of funds long before 2Q22.

115. The implications of the foregoing are disturbing for another reason. The practice of raising funds under false pretenses, with the promise of a return that the promisor knows is unlikely ever to be fulfilled, then using those funds instead to pay other investors to whom a company has also promised returns is the essence of a Ponzi scheme. It is therefore particularly

Source: Complaint at pg 6 and pg 36, Tradeinvest Asset Mgmt. Company (BVI) LTD, et al v. William "Beau" Wrigley, Jr., et al., Case 9:22-cv-80360-AMC (S.D. Fla. 2022) (No. 59)

That same month, senior secured lenders filed a separate lawsuit against Parallel in New York. According to the NY lawsuit, Parallel was "**experiencing financial distress**" throughout 2021, and "**missed its projections so badly**" that it was "**unable to meet its debt obligations as they came due**."

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

John and Ultima Morgan, TGHI II LLC, Prime Overseas Investments and Enterprises Ltd., and Techview Investments Ltd.,

Plaintiffs,

-against-

Surterra Holdings Inc. dba Parallel, SH Parent Inc., PE Fund LP, WWJr. Enterprises Inc., William "Beau" Wrigley, Jr., SAF Group, and GLAS Americas LLC,

Defendants.

Index No.: __________

COMPLAINT

6. Throughout 2021, Wrigley had been grooming the Company to be acquired by a special purpose acquisition company or "SPAC." Unbeknownst to Plaintiffs, the Company was experiencing financial distress throughout the year and was unable to meet its debt obligations as they came due. To cover up this reality and conceal it from minority Noteholders, in June 2021, Wrigley caused the Company to breach the Note Purchase Agreement by secretly issuing a new

Source: Morgan vs. Surterra Holdings, Supreme Court of N.Y., 651041/2022

Both lawsuits paint a picture of Parallel as a company in severe financial distress. According to the Florida lawsuit, by the end of June 2021, Parallel had incurred $350 million in debt and could not make payments, sending it into default.

6. The Securities Defendants' urgent need for cash before the end of September, and their willingness to make misrepresentations and omissions to obtain it, was a direct result of Wrigley's profligate leadership. By the summer of 2021, Wrigley had burdened the Company with enormous amounts of debt, and it could not make the required payments as they came due. By the end of June 2021, as discussed above, the Company had incurred more than $350 million in debt, a portion of which—the PE Fund Note—constituted an undisclosed default under $300 million of its Senior and Junior Note. Added to this was the Company's relatively poor recent

Source: Complaint at pg 4, Tradeinvest Asset Mgmt. Company (BVI) LTD, et al v. William "Beau" Wrigley, Jr., et al., Case 9:22-cv-80360-AMC (S.D. Fla. 2022) (No. 59)

The lawsuits also allege that Parallel misrepresented its financial projections. In the space of just five months, the Florida lawsuit shows that Parallel slashed its 2022 EBITDA projections by two-thirds, a revision described by the Florida lawsuit as "staggering" and indicative that Parallel's financial projections lacked any reasonable basis.

8. In other words, the Company cut its revenue projections for 2022 by ***40 percent***, and their EBITDA projections for 2022 by ***two-thirds***, between the month before the Securities Defendants took the SAFE Plaintiffs' money and just three months after. The sheer magnitude of the revisions indicates that the Company's August 2021 projections—which they used for purposes of marketing the SAFE to the SAFE Plaintiffs—lacked any reasonable basis.

Source: Complaint at pg 5, Tradeinvest Asset Mgmt. Company (BVI) LTD, et al v. William "Beau" Wrigley, Jr., et al., Case 9:22-cv-80360-AMC (S.D. Fla. 2022) (No. 59)

Corroborating Parallel's poor financial health, its SPAC presentation disclosed that in 2020, Parallel's EBITDA was negative $69 million, and **its interest expense was $53 million per year.** Based on the lawsuits, it seems likely that these interest costs will only have grown substantially since last disclosed. Even if we take Parallel's 2022 EBITDA projections at face value – which we suspect are likely a gross overestimate – Parallel appears clearly unable to service its debts.

Parallel's Financials FY19/20

	2019	2020
Net Loss (GAAP)[3]	($263M)	($140M)
Plus: Net Interest Expense	+ $32M	+ $53M
Plus: Depreciation and Amortization	+ $13M	+ $20M
Less: Tax Benefit	($8M)	($2M)
EBITDA	**($226M)**	**($69M)**
Plus: Stock-based Compensation	+ $95M	+ $35M
Plus: Severance	+ $2M	+ $5M
Plus: Other Adjustments[4]	+ $127M	+ $51M
Plus/Less: Loss/(Gain) on Sale	+ $1M	($4M)
Adjusted EBITDA	**($1M)[5]**	**$18M**

Source: Parallel SPAC Presentation

Parallel is the largest debtor in IIPR's portfolio. Yet rather than scale back its loan commitments to Parallel, IIPR simply lent its largest debtor more money by increasing the improvement allowance on one of the properties from $8 to $16.2 million in June 2021.

> In June 2021, we amended our lease with a subsidiary of Parallel at one of our Florida properties, increasing the improvement allowance under the lease by $8.0 million to a total of $16.2 million, which also resulted in a corresponding adjustment to the base rent for the lease at the property.

Source: IIPR 2021 10-K

This raises the question as to whether IIPR is simply round tripping money to its distressed customer so as not to recognize a default on its lease portfolio. But this would only temporarily stave off default given Parallel's apparent condition.

IIPR's valuation rests on the assumption that its tenants will repay the loans through 15–20-year leases at attractive yields. IIPR insists that it only chooses tenants of the highest quality – yet Parallel is a striking example of chaos at the biggest debtor in IIPR's loan portfolio.

While we do not opine on the merits of the Parallel lawsuits, the complaints paint a disturbing picture of a cannabis company which is in default on hundreds of millions of dollars in debt, facing allegations of securities fraud and misrepresenting its financial performance, and accusations of being in essence a Ponzi scheme. To us, this picture suggests that Parallel is in imminent danger of defaulting[3] on its lease obligations to IIPR, if it has not already.

Perhaps because these lawsuits have recently been filed, and the primary complaint was only unredacted last week, we do not believe that the risk of default has been priced into IIPR's stock, which still trades at a 3.7% dividend yield.

- **Substantial Property Value Impairment and ~70% Downside in Rental Income in the Event of Parallel Default**.

If IIPR's tenants default on their leases, the premise underpinning IIPR's stock price collapses. The reason is that the market value of the properties appears to be substantially lower than they are carried at on IIPR's balance sheet. This is because IIPR, by design, executes the sale-leaseback transaction with cannabis companies at above market prices to in effect loan money to its tenants who otherwise cannot borrow from the banking system. The problem is that if the tenant defaults, IIPR is left with a property that is by definition worth substantially less than it paid for it.

IIPR's investors take comfort in the belief that IIPR's long term leases are secured by a valuable real estate portfolio – which IIPR carries at cost on its balance sheet. Investors are led to believe that this real estate can be re-leased in the event of tenant default.

We disagree, and we think the Parallel case shows why. In 2021, IIPR's second largest acquisition was a sale-leaseback transaction with Parallel at the Northside Commerce Center in Pittsburgh, Pennsylvania.

IIPR acquired the 239,000 sq. ft warehouse from Parallel in May 2021 for $41.8 million. In addition to the initial acquisition price, IIPR reimbursed Parallel a further $26 million of tenant improvement costs. At a total cost of nearly $68 million, the Pittsburgh acquisition represented 11% of IIPR's new investments in 2021.

[3] In bankruptcy proceedings, tenants in distress typically ask the court to reject their leases, making any claims by IIPR subordinate to the senior lenders (IIPR Annual Report pg. 30). Because cannabis remains illegal under Federal law, there is also no assurance that federal bankruptcy courts will provide relief, even in the unlikely event there would be assets remaining after senior secured creditors were paid off.

Parallel's Pittsburgh Property

Source: Costar

Tax records for Allegheny County show that on May 6, 2021, Parallel paid $22 million to acquire the property from a local real estate company – *the Buncher Co*. Prior to the acquisition, Parallel already committed to lease the property from the Buncher Co in February 2021.

Yet just **one day** after Parallel acquired the building from its owner for $22 million, Parallel flipped the asset to IIPR in a sale-leaseback deal for $42 million – a 90% markup.

Allegheny County Real Estate Portal | Search Contact Us

Parcel ID : 0044-C-00100-0000-00 Municipality : 127 27th Ward - PITTSBURGH

Property Address : 2840 -2920 NEW BEAVER AVE
PITTSBURGH, PA 15233 Owner Name : IIP-PA 8 LLC

Deed Book : 18438 Deed Page : 10

Owner	Sale Date	Sale Price
IIP-PA 8 LLC	5/7/2021	$41,750,000
GBC PA PITTSBURGH LLC	5/6/2021	$22,000,000
BUNCHER COMPANY	7/3/1975	$404,980

Source: Allegheny County

Note: GBC PA Pittsburgh LLC is a legal entity for Goodblend – a subsidiary of Parallel

Parallel Pittsburgh Transaction Timeline

Date		$m	Markup %
2-Jan-21	Parallel committed to a long-term lease with Buncher Co.		
6-May-21	Parallel acquired building from Buncher Co.	22	
7-May-21	**IIPR acquired building from Parallel**	**42**	**90%**

Source: Allegheny County, News Articles

Parallel bought the property for $22 million and flipped it to IIPR the next day for $42 million, pocketing the spread as a loan to build its business. That's why we think of IIPR as a marijuana bank and not a traditional REIT.

In addition to the $42 million purchase price, IIPR also reimbursed Parallel a further $26 million of tenant improvement costs.[4] It is unclear what – if any – residual value they would carry in the event of Parallel's default, especially considering that IIPR depreciates these tenant improvements over the course of the lease.

The Parallel transaction shows, in our opinion, the actual market value of the Pittsburgh property is substantially less than the carrying value of the property value of the property on IIPR's balance sheet. Clearly, this is less of an issue if Parallel was able to make its lease payments to IIPR for the next 15-20 years.

But, if Parallel defaults on its lease, a scenario that based on the lawsuits appears likely, the market rental value of the property on an "as is" basis is likely substantially lower than the current rent IIPR receives from Parallel. We see the same pattern with other Parallel properties.

- ***Parallel Lakeland – IIPR paid $19.6 million for a property sold for $3.6 million one-year prior***

For example, in September 2020 IIPR acquired Parallel's greenhouse facility in Lakeland, Florida for $19.6 million.

Parallel's Lakeland Greenhouse

Source: Loopnet

Local tax records for Polk County show that just 19 months, in February 2019, Parallel acquired the same property for just $3.58 million – 82% less than the price paid by IIPR.

Date	Type Inst	Vacant/ Improved	Grantee	Sales Price
09/2020	Q	I	IIP FL 2 LLC	$100
09/2020	W	I	IIP FL 2 LLC	$19,550,000
02/2019	W	V	SURTERRA LAKELAND LLC	$275,000
02/2019	W	I	SURTERRA LAKELAND LLC	$3,302,000
02/2019	Q	I	SURTERRA LAKELAND LLC	$100
07/2007	W	V	TREMEL JAD S	$245,000
07/2007	W	V	SUNSHINE LAKELAND PROPERTIES INC	$350,000
06/2004	Q	V	JBR KEATING LC	$100

Source: Polk County

- ***Parallel Wimauma – IIPR paid $35 million for a property sold for $9.2 million three years prior[5]***

Similarly, in March 2020 IIPR acquired Parallel's greenhouse facility in Wimauma, Florida for $35.3 million.

[4] Equivalent to $209 per square foot of useable space. Parallel press release at the time of the transaction state that the warehouse would have just 124,000 of useable space by Parallel.
[5] Surterra is a Parallel brand, and Suterra Lakeland is managed by Parallel Florida.

Parallel's Wimauma Greenhouse

Source: [Hillsborough County]

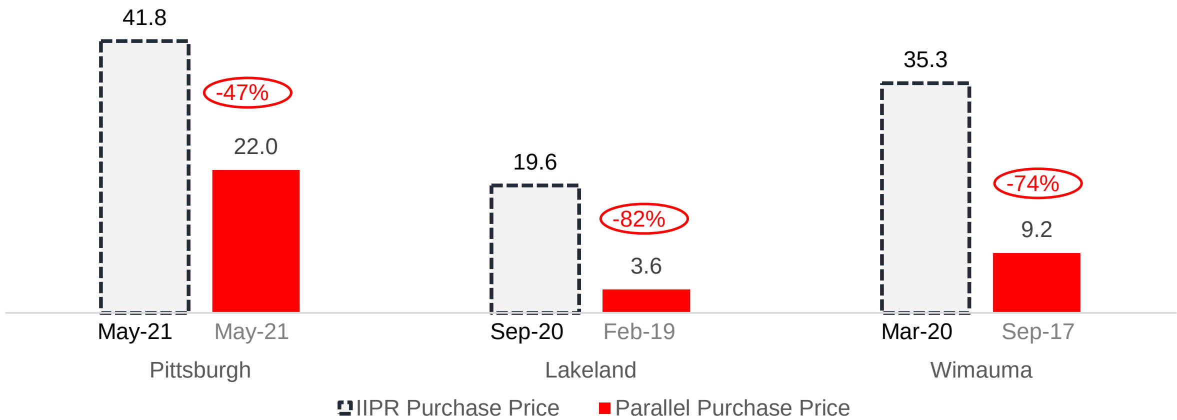
Yet local tax records for Hillsborough County show that just three years before, in September 2017, Parallel (at the time called Surterra) acquired the same property for just $9.2 million – 74% less than the price paid by IIPR.

Official Record Book / Page	Instrument Number	Date Month	Date Year	Type Inst	Qualified or Unqualified	Vacant or Improved	Sale Price
/	2020098064	03	2020	WD	Unqualified	Improved	$35,300,000
25263 / 1198	2017382562	09	2017	WD	Qualified	Improved	$9,200,000
22465 / 0242	2014087013	03	2014	WD	Unqualified	Improved	$632,500
21755 / 0227	2013110200	12	2012	WD	Qualified	Improved	$2,100,000
9980 / 0350	1999395333	11	1999	WD	Unqualified	Improved	$1,000,000
6598 / 0599	92095863	05	1992	WD	Qualified	Vacant	$92,300

Source: [Hillsborough County]

The point is this. If we use the price paid by Parallel prior to flipping the properties to IIPR in a sale-leaseback transaction, which we believe is a better proxy for the residual value of the properties, in the event of default that the properties would be worth closer to $34.8 million – 64% less than IIPR paid to acquire the assets.

Parallel Acquisition Prices vs Historical Transactions



Source: Company Filings, Local Tax Records

Note: Excludes Parallel San Marco asset which is under development.

In addition, IIPR funded $73.7 million of tenant improvements across the three properties, which we generously value at 45% of cost in the event of default. We think this is highly generous considering these tenant improvements are depreciated over the term of the lease, and it is unclear what value, if any, will remain from such improvements in the event of Parallel's default.

Parallel Properties as Carried on IIPR's Balance Sheet

			Initial Costs			Total Costs				
Property	State	Year Built/Renovated	Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total	Accumulated Depreciation	Net Cost Basis
Parallel FL Portfolio	Florida	Various(5)	3,258	51,625	52,336	3,258	103,961	107,219	(3,388)	103,831
Parallel PA	Pennsylvania	1976/2021	6,979	34,781	25,890	6,979	60,671	67,650	(1,050)	66,600

Source: [IIPR Annual Report 2021]

Parallel Properties – Book Value vs Estimated Market Value

$m	
Acquisition Prices Paid by IIPR	96.7
Tenant Improvements Funded (Net)	73.7
Net Book Value 2021 (IIPR Reported)	**170.4**
Historical Acquisition Prices Paid by Parallel	34.8
Adjustment for Price Appreciation @ 5% pa	4.0
Tenant Improvements @ 45%	33.2
Market Value (BOC Estimate)	**71.9**
% downside	*-58%*

Source: Company Filings, Local Tax Records
Note: 1. Excludes Parallel San Marco asset which is under development.
2. Market value estimate is based on the most recent purchase price adjusted for property price appreciation at 5% per annum.

IIPR currently expects to earn $24 million of annual rent from Parallel. Yet we estimate that the market value of the properties is as little as $72 million based on historical transactions and assumed salvage value for tenant improvements of 45%. Even if we generously assume that IIPR is able to let these properties at a 10% yield, we estimate that the implied market rent in a default scenario from a new cannabis tenant would be 70% less than the current rental income for the properties.

Parallel Properties – Current Rental Income vs Estimated Market Rental Income

$m	
Rental income from Parallel (Q4 2021)	6
Rental income from Parallel (annualized)	**24**
Est. market value of properties leased to Parallel	72
Est. rental yield	10%
Est. market rent for properties leased to Parallel	**7**
% downside	-70%

Source: Company Filings, Blue Orca estimate

Ultimately, we believe that the market has yet to price into IIPR's stock the material risk that its largest tenant is on the verge of default. Investors are suing Parallel in multiple litigations, alleging that the business in default on hundreds of millions in debt and is in essence a Ponzi scheme.

While we have no view on the ultimate merits of the litigations, from an investor perspective it certainly appears that Parallel is in severe financial distress and on the verge of default. REITs whose largest tenant appear distressed do not typically trade at a 3.7% yield.

2. Second Largest Tenant Accused of Fraud in Lawsuit Between Founders

The issues are not limited to the Company's largest tenant. IIPR's second largest tenant is a private company which was recently embroiled in a lawsuit accusing its founder of falsifying its financials and selling illegal black-market cannabis. The case is ongoing, but we think the severity of the allegations should concern investors given Kings Garden's outsized contribution to Company revenues and returns in recent years.

IIPR's second largest tenant is Kings Garden, a small California cannabis company which accounted for 10% of IIPR's rental income in Q4 2021.

Kings Garden Revenue as a Percentage of IIPR's Portfolio – Q4 2021

$m	FY21	9MFY21	Q4FY21
IIPR total revenue	205	146	59
Revenue from Kings Garden	16	10	6
% of total revenue	**8%**	**7%**	**10%**

Source: Company Filings

What's notable about Kings Garden, is that IIPR's actual investment in Kings Garden properties is relatively small – less than 5% of its reported gross real estate investment. Yet these properties accounted for more than 10% of IIPR's rental income in Q4 2021.

As of December 31, 2021, IIPR has invested $83 million in acquiring six properties from Kings Garden with a further $65 million in tenant improvement commitments outstanding.

$m Property	Year Acquired	Rentable Sq Ft	Investment to Date	Remaining Investment	Total Investment
Kings Garden CA Portfolio	2019-2020	544,000	83	65	148

Source: Company Filings

Based on IIPR's filings, we estimate that the effective yield of IIPR's Kings Garden investment to date is 30% - which is double IIPR's average yield across its portfolio.[6] Accordingly, IIPR's Kings Garden investments have been a substantial contributor to IIPR's returns and overall yield in recent periods.

Kings Garden Yield Calculation

$m	
Kings Garden Rent Q4 2021	6
Annualized	25
Kings Garden investment to date	83
% Yield	**30%**
Kings Garden total committed investment	148
% Yield	**17%**

Source: Company Filings, Blue Orca Calculation

The high yield attached to the Kings Garden investments should raise eyebrows. Cannabis companies with healthy prospects would likely never agree to such an egregious arrangement. We suspect that the high yield on the Kings Garden investments is likely reflective of higher tenant risk – a suspicion only furthered by claims made in recent lawsuits against Kings Garden.

[6] Even if we factor in future tenant improvements funded by IIPR, the implied yield is 16%.

In May 2021, Kings Garden co-founder Paul King filed a lawsuit against Kings Garden and its executives including his brother – Kings Garden CEO – Michael King. The suit alleged that Michael King had engaged in fraudulent and deceitful business practices, including "**deliberately and blatantly falsifying**" the books and records of the cannabis company.

PAUL KING, an individual, Plaintiff, v. MICHAEL KING, an individual; LAURI KIBBY, an individual; CHARLES KIELEY, an individual and DOES 1 through 20, inclusive Defendants. and KINGS GARDEN, INC., a Nevada corporation, Nominal Defendant.	CASE NO.: **VERIFIED COMPLAINT FOR:** **1. FRAUD – INTENTIONAL MISREPRESENTATION;** **2. FRAUD - NEGLIGENT MISREPRESENTATION;** **3. AIDING AND ABETTING FRAUD;** **4. BREACH OF CONTRACT;** **5. BREACH OF FIDUCIARY DUTY;** **6. CONVERSION;** **7. INSPECTION OF BOOKS AND RECORDS;** **8. ACCOUNTING** **9. FRAUD – INTENTIONAL MISREPRESENTATION (DERIVATIVELY);** **10. FRAUD – NEGLIGENT MISREPRESENTATION (DERIVATIVELY);** **11. AIDING AND ABETTING FRAUD (DERIVATIVELY);** **12. BREACH OF FIDUCIARY DUTY (DERIVATIVELY); AND** **13. CONVERSION (DERIVATIVELY).**

26. Upon information and belief, during the years M. King has operated Kings Garden and the Predecessor LLCs, and with the aid of Kibby and Kieley, M. King has deliberately and blatantly falsified books and records to personally enrich himself, and swindle money from investors. In so doing, M. King repeatedly misrepresented that funds were being used for business purposes when in fact they were exclusively used for M. King's personal benefit. Upon information and belief, M. King used and continues to use Kings Garden as his own personal piggy bank thereby decreasing the value of Plaintiff's and other investors' ownership interests in the company by millions of dollars.

Source: California Lawsuit

Most troubling from the perspective of IIPR and its shareholders, the suit accused Kings Garden of unlawful and fraudulent activities with respect to Kings Garden's **financial, regulatory and tax reporting**, including arranging for the sale of millions of dollars of **black-market** cannabis grown at Kings Garden facilities and sold in violation of state and local laws.

28. Upon information and belief, during the years M. King has operated Kings Garden and the Predecessor LLCs, M. King has also engaged in various unlawful and fraudulent activities with respect to King Garden's and the Predecessor LLCs' financial, regulatory and tax reporting, including arranging for the sale of millions of dollars of "black market" cannabis grown at Kings Garden-affiliated facilities, both within and outside of the State, in violation of federal, state and local laws and regulations. Such brazen misconduct for M. King's personal financial benefit directly puts at risk the very valuable permits, licenses and regulatory approvals held by Kings Garden and its subsidiaries.

Source: California Lawsuit

These allegations of black-market cannabis sales, if substantiated, put the permits and licenses of IIPR's second largest tenant in jeopardy. The allegations of falsifying books and records, including financial, regulatory and tax reporting, also raise the question of whether such records were submitted to IIPR, which IIPR relied on in underwriting its investment.

120. Kings Garden was damaged because the funds and assets that were intended to be used for Kings Garden's business and for the benefit of all of its shareholders were actually used by M. King personally. Kings Garden was damaged by being robbed of its assets and by having inaccurate financial records.

Source: California Lawsuit

The lawsuit was refiled in January 2022 in Florida court. Although we express no opinion on the merits of the complaint or the credibility of Paul King as a litigant, we think that the severity of the allegations should concern investors, particularly considering both IIPR's high exposure to Kings Garden and the cannabis company's apparent desperation as evidenced by the onerous yield to which it agreed on its lease.

It is also not the first time that Kings Garden faced allegations of self-dealing, poor corporate governance, and a lack of transparency around its financial affairs. In January 2019, an investor sued Kings Garden in California alleging that it had not received any of the quarterly distributions owed to it by the cannabis company under the terms of its investment.

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF SAN DIEGO

Swiss American Investment Corporation, a Florida Corporation; and ROES 1 through 20, inclusive, Petitioner, vs. King's Garden, LLC; Lauri Kibby, in her capacity as a managing member; Michael King, in his capacity as a managing member; Charles Kieley, in his capacity as a managing member; and DOES 1 through 50, inclusive, Respondents.	Case No.: 37-2019-00005548-CU-WM-CTL **VERIFIED PETITION FOR WRIT OF MANDATE FOR THE PRODUCTION OF CORPORATE BOOKS AND RECORDS** **[Code Civ. Proc., § 1085]**

Source: Complaint Swiss American Investment Corporation v. King's Garden, LLC et al Case 37-2019-00005548-CU-WM-CTL

The investor, Swiss American Investment, said that it had discovered a series of "irregular" financial transactions involving millions of dollars between Kings Garden and the managing directors, including loans made to purchase real estate which was then leased back to the company.

21. On or about January 15, 2019, King's Garden did produce some financial records and related document but these records raised several troubling transactions, including but not limited to:

a. Loans of millions of dollars to managing members of King's Garden (or affiliated entities) to purchase real estate, which was then leased back to the Company;

b. The execution of a convertible promissory note from a limited liability company controlled by a managing member of King's Garden;

c. Numerous interested transaction and service contracts between King's Garden and JM Endeavors, Desert Payroll Solutions and CK Endeavors, Inc., all entities owned or controlled by managing members.

Source: Complaint Swiss American Investment Corporation v. King's Garden, LLC et al Case 37-2019-00005548-CU-WM-CTL

Many of the themes of the Swiss American Investment lawsuit echo the more recent allegations, including allegations regarding the integrity of Kings Garden's financial records. The lawsuit was also brought shortly after Kings Garden "halted" its planned IPO process in 2018. The result of the lawsuit remains shrouded in mystery as the case was referred to non-public arbitration.

Although we express no opinion on the merits of the complaints, and Kings Garden has not been the subject of an adverse judgment, to our knowledge, in either case, we think such controversies should raise concerns regarding the tenant quality in IIPR's portfolio. Like Parallel, if Kings Garden finds itself in a distress, IIPR will struggle to replace this income stream with a new tenant. This is because historical transactions suggest that the Kings Garden properties are worth substantially less than IIPR carries them on its balance sheet, and clearly, in a release scenario, we doubt that IIPR would achieve anywhere near a 17%–30% yield.

- **Residual Value of Kings Garden Properties Likely Substantially Less than Book Value**.

As with Parallel, county records for the Kings Garden properties appear to indicate that they are worth substantially less than IIPR paid for them – and marks them on the balance sheet. In all cases, local transaction records show that Kings Garden acquired the buildings for a fraction of the price, before flipping them on to IIPR in a sale-leaseback transaction at a substantial markup. As with Parallel, this should alarm investors because it indicates that IIPR's real estate will provide much less residual value in the event of tenant default than investors are led to believe.

- ***IIPR paid $17.5 million to acquire Kings Garden Mclane Street, which was acquired / renovated for a combined cost of $4.9 million just three years earlier***

For example, in May 2020, IIPR acquired Kings Garden's warehouse at 19533 Mclane Street Palm Springs for $17.5 million.

Source: Google Earth

Yet tax records for Riverside County show that Kings Garden acquired the same building – just three years earlier – in May 2017 for $3.75 million.

Transfer History

Date	Document #	Sale Price
5/13/2020	2020-0204285	$17,500,000
8/14/2018	2018-0325614	$0
5/1/2017	2017-0172475	$3,750,000
12/29/2014	2014-0495362	$0
10/1/2014	2014-9030419-UC	$0
8/25/2008	2008-0468399-S	$0

Source: Riverside County

In the time between the two sales, Kings Garden spent $1.1 million on improvements at the property; nowhere near enough to explain the markup.

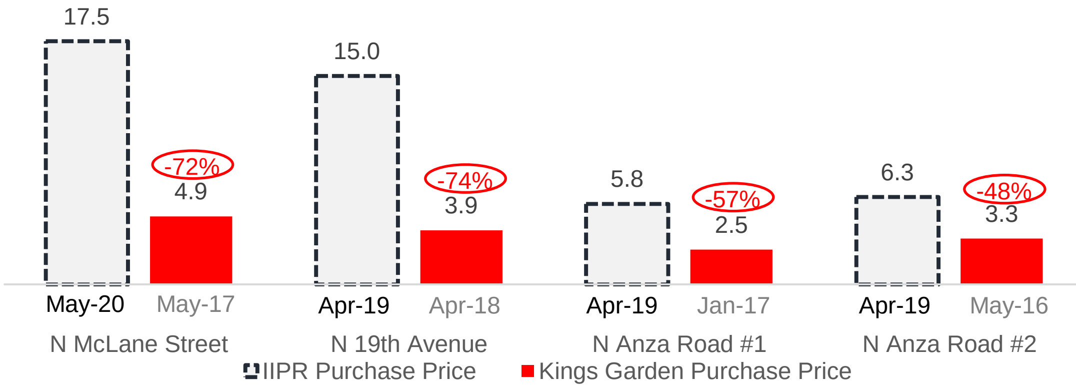
Features

Code	Code Description	Year	Size	Quality	Cond. Details	Percent
TI	Tenant Improvement (RCN) [C]	2019	Replacement Cost New - 445000.00	N/A	N/A	100.00 %
TI	Tenant Improvement (RCN) [C]	2019	Replacement Cost New - 445000.00	N/A	N/A	100.00 %
MISC STRUCT RCN	Miscellaneous Structure (RCN) [R]	2019	Replacement Cost New - 205000.00	N/A	Average	100.00 %

Source: Riverside County

All considered, the tax county records indicate that the building is worth substantially less than IIPR paid for it.

Kings Garden Acquisition Prices vs Historical Transactions



Source: Company Filings, Riverside County Tax Records, Grizzly Research
Note: Excludes $25.4 million Nov-20 acquisition and $1.4 million Feb-21 acquisition, McLane Street and N 19th Avenue include tenant improvements incurred by Kings Garden prior to IIPR's purchase.

In total, IIPR paid $45 million to acquire these four Kings Garden properties.[7] But based on the historical transaction records, we estimate that the market value of the properties may be as low as $20 million – or 62% lower than IIPR reports on its balance sheet.

Kings Garden Acquisition Prices vs Historical Transactions

$m	
Acquisition Prices Paid by IIPR	44.6
Tenant improvements Funded (Net)	8.1
Net Book Value 2021 (IIPR Reported)	**52.7**
Historical Acquisition Prices Paid by Kings Garden	14.6
Adjustment for Price Appreciation @ 5% pa	2.0
Tenant Improvements @ 45%	3.6
Market Value (BOC Estimate)	**20.3**
% downside	*-62%*

Source: Company Filings, Riverside County, Grizzly Research
Excludes $25.4 million Nov-20 acquisition and $1.4 million Feb-21 acquisition.
2. Market value estimate is based on the most recent purchase price adjusted for property price appreciation at 5% per annum.

Applying the same analysis as with Parallel, we estimate that IIPR's long term rental income from these properties would decline more than 80% in the event of tenant default. This analysis is extremely generous as it gives full credit to the book value ($26.8 million) reported by IIPR for the two properties that we were not able to diligence.

[7] Attributes full $8.1 million of net improvement expenditure incurred across Kings Garden portfolio to these four properties.

Kings Garden Properties – Current Rental Income vs Estimated Market Rental Income

$m	
Rental income from Kings Garden (Q4 2021)	6
Rental income from Kings Garden (annualized)	**25**
Est. market value of properties leased to Kings Garden	20
IIPR acquisition cost of other Kings Garden properties	27
Est. rental yield	10%
Est. market rent for properties leased to Kings Garden	**5**
% downside	-81%

Source: Company Filings, Blue Orca Calculation
Note: Assuming non-diligenced Kings Garden properties are worth what IIPR paid and reimbursed for them.

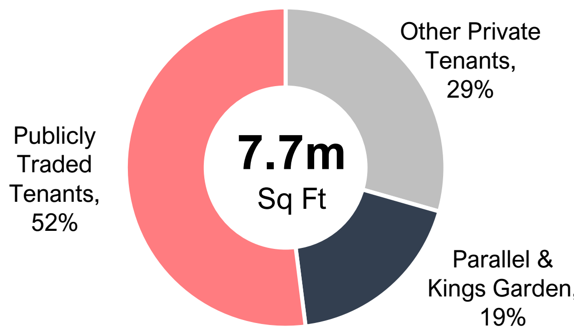
This analysis shows that even assuming IIPR can re-lease the properties out at a 10% yield (a generous assumption), in the event of tenant default or distress, IIPR's estimated replacement rent would be likely more than 80% less than IIPR's investors are modelling over the next decade.

IIPR's Listed Tenants Struggling with Falling Share Prices (-46%) and worsening cash flows.

Parallel is the most salient example of the eroding quality of IIPR's tenant portfolio over the past 18 months. Yet looking at IIPR's listed tenants, which comprise 52%[8] of the Company's loan portfolio by square footage, shows that IIPR's counterparties are beset by falling stock prices, net losses and plummeting free cash flows. This matters because IIPR's stock price is contingent on the financial health of its tenant portfolio and the ability of its cannabis companies to continue to pay high lease rates over the next 15–20 years.

IIPR has current sale-leaseback arrangements with nine publicly traded companies. Together, these cannabis companies constitute 52% of the properties in IIPR's portfolio by square footage.

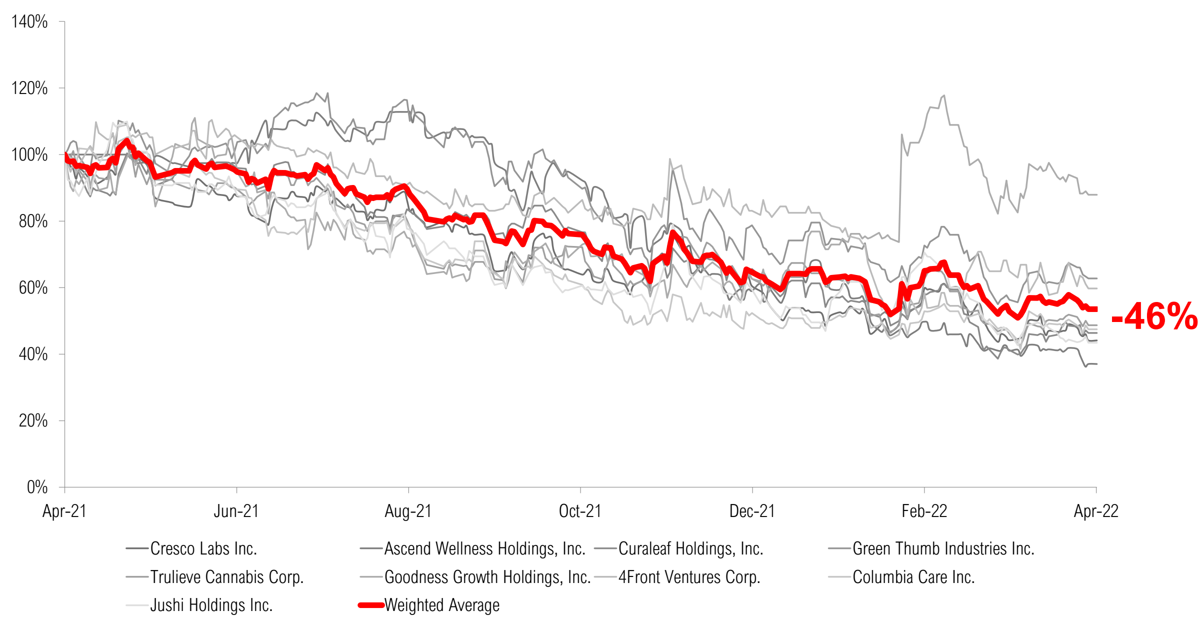
IIPR's Portfolio Composition by Square Footage



Source: IIPR's 2021 10-K

Equity investors share our grim view of these businesses. A weighted average basket (by sq ft) of IIPR's listed tenants was down **46% in the past twelve months**.

12 Month Share Price Performance – IIPR's Listed Tenants



Source: Capital IQ

[8] Includes a portion of the 27-property portfolio acquired in 2021 attributed to Curaleaf and Columbia Care.

Plummeting stock prices are particularly problematic for cannabis companies for whom traditional debt financing is either inaccessible or prohibitively expensive. Rather, cannabis companies must typically issue equity. When their share prices decline, they are forced to issue equity at lower prices, further depressing their share price and further increasing their cost of capital. It creates a vicious cycle.

The disclosed financials of IIPR's tenants also paint a picture of a struggling loan portfolio. Green Thumb Industries is the exception, but it constitutes only a small part of the Company's tenant list. Many of the rest report significant GAAP net income losses and starkly negative free cash flows.

2021 Annual Financial Performance – IIPR's Listed Tenants ($m)

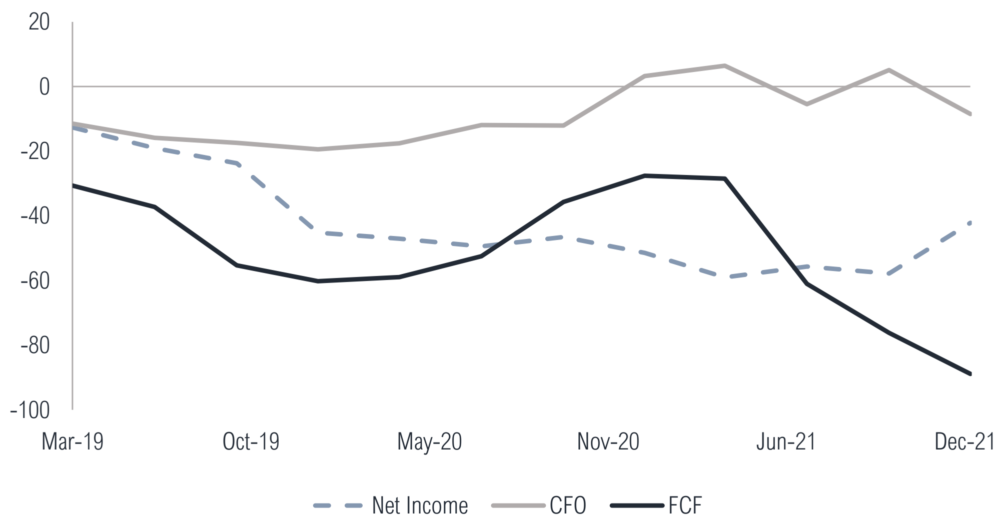
Q4 TTM 2021	% IIPR Exposure by Sq Ft	Net Income	Cashflow from Operations	Free Cashflows
Trulieve Cannabis Corp.	9%	18	13	(293)
Columbia Care Inc.	6%	(143)	(1)	(118)
Ascend Wellness Holdings, Inc.	7%	(123)	(42)	(130)
4Front Ventures Corp.	6%	(35)	4	(10)
Goodness Growth Holdings, Inc.	6%	(34)	(31)	(49)
Green Thumb Industries Inc.	6%	75	132	(56)
Cresco Labs Inc.	5%	(320)	14	(79)
Curaleaf Holdings, Inc.	5%	(102)	(34)	(206)
Jushi Holdings Inc.	2%	26	2	2
Median		**(35)**	**2**	**(79)**

Source: Capital IQ

Note: Where FY21 figures are not available we have used LTM numbers

If we compare these figures over time, the trend becomes clear. The median of IIPR's listed tenants shows sustained losses and worsening free cash flows.

Median Reported Finances TTM – IIPR's Listed Tenants ($m)



Source: Capital IQ

We also believe that the listed tenants are potentially healthier than IIPR's non-listed tenants, although without disclosed financials it is difficult to tell. IIPR's non-listed tenants do not have easy access to the capital markets to issue equity, so the trends affecting the industry are potentially more problematic for those private cannabis companies.

IIPR is a marijuana bank whose loan portfolio is only partially secured by the properties it owns. As we know from Parallel and other examples, IIPR's sale-leaseback model is to purchase properties from its cannabis tenants at above market rates so as to loan its tenants money to build their businesses. The health of IIPR's share price is therefore contingent on tenant quality, and specifically whether its tenants can repay the borrowed money through long term leases.

Yet from IIPR's listed tenants, we see that most of its borrowers are saddled with falling share prices, GAAP net income losses and worsening free cash flows. If IIPR were a bank instead of a REIT, investors would have priced this declining health into its stock price. Yet IIPR still trades a 3.7% dividend yield.

Ultimately, IIPR's stock price is simply a bet that its cannabis tenants can continue to pay rent at above market rates for the next 15–20 years. Tenant quality is paramount, making the severe financial distress and likely default of IIPR's largest tenant a hammer blow to IIPR's perception as a safe, boring REIT. As tenants continue to struggle, we think investors will find there much less value in IIPR's property portfolio than they previously assumed.

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