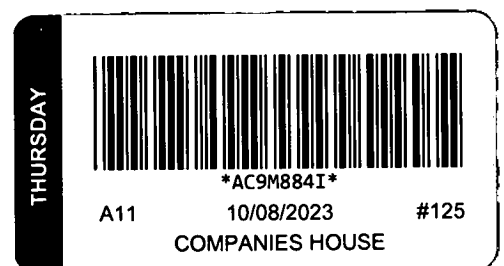


Company Registration No. 13245355 (England and Wales)

CLS UK PROPERTY FINANCE 2 LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022



CLS UK PROPERTY FINANCE 2 LIMITED

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CLS UK PROPERTY FINANCE 2 LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The principal activity of CLS UK Property Finance 2 Limited and its subsidiary undertakings (the "Group") is the investment in commercial property across the United Kingdom.

Investment property portfolio

At 31 December 2022, the Group had a portfolio of 6 properties located throughout the United Kingdom.

At 31 December 2022, the Group had contracted rent of £6.3 million per annum which represented a net initial yield of 5.8%. The properties had a total lettable area of 16,719 square metres. The weighted average lease length of these properties was 6.2 years.

At 31 December 2022, the investment property portfolio was valued at £108.0 million (2021: £114.2 million)

Financing

On 27 April 2021, the Group completed a £62 million loan with Scottish Widows Investors which was secured on a portfolio of 6 UK properties. The loan is made up of one tranche of 12 year maturity, at a fixed rate of 2.65%.

Results for the year

The results for the period are set out on page 12.

Group revenue for period was £7.8 million (2021: £6.9 million) and Group revenue less costs was £5.1 million (2021: £3.9 million). Finance costs for the year were £2.8 million (2021: £1.9 million). Net fair value loss on investment properties in the year was £8.3 million (2021: Profit £1.2 million). Loss before tax was £6.0 million (2021: Profit £3.2).

Outlook

As the Group has secure rental streams and long-term financing in place, the Directors expect it to be profitable. The asset management focus will be on renegotiating leases with existing tenants, otherwise on exploring opportunities to refurbish and redevelop the investment property.

CLS UK PROPERTY FINANCE 2 LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Business Strategy

Corporate Objective

To generate returns for the CLS Holdings plc group through the payment of dividends.

Business Model

- Investments are required to make a high cash-on-cash return.

Focus is on cash returns and on high yielding office properties, financed by a cost of debt well below the net initial yield of the properties.

- Invest in modern, high quality, well-let properties in good locations.

Investments are appraised by local property teams and presented to the boards of the investing entities for investment decisions to be made. The Group looks to create extra value through developments when letting risk and financing risk have been in large part mitigated.

- Secure long-term finance to reduce risk.

The Group has one loan. Long-term finance has been secured externally until 2033 at an average rate of 2.65%. Additional finance has been provided by a fellow group undertaking until 2033, at a daily compounded SONIA plus a margin of 4%.

- Investments retain a strong core income stream.

The Group seeks customers with strong covenant strength and looks to secure them for extended lease periods. Currently the the Group's contracted rent is derived from a mixture private sector tenants with the weighted average lease term being 6.2 years (2021: 6.9 years)

- Maintain low vacancy rates.

In-house property managers maintain close links with occupiers to understand their needs, focusing on the quality of service and accommodation for our customers.

Key performance indicators

Cash-on-cash returns

- We seek to maintain a cost of debt at least 200 bps below the Group's net initial yield. The properties initial yield was 5.8% (2021: 5.1%), whilst the cost of debt was 2.65% (2021: 2.65%).

Maintain low vacancy rates

- We target a vacancy rate of between 3% and 5%. The vacancy rate at 31 December 2022 was 10.7% (2021: 5.4%). We are confident that our active asset management strategy will reduce vacancy levels in 2023.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause the results to differ materially from expected or historical results. The management and mitigation of these risks are the responsibility of the Board.

CLS UK PROPERTY FINANCE 2 LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause the results to differ materially from expected or historical results. The management and mitigation of these risks are the responsibility of the Board.

Property Investment Risks

- 1) *Risk:* Underperformance of investment portfolio due to cyclical downturn in property market.
Areas of impact: Cash flow, profitability, net asset value, banking covenants.
Mitigation: Senior management has detailed knowledge of core markets and experience gained through many market cycles. This experience is supplemented by external advisors and financial models used in capital allocation decision-making.
- 2) *Risk:* Changes in supply of space and/or occupier demand.
Areas of impact: Rental income, cash flow, vacancy rate, void running costs, property values, net asset value.
Mitigation: The Group's investment property is let to occupiers from various sectors and the weighted-average unexpired lease term is 6.2 years (2021: 6.9 years).
- 3) *Risk:* Poor asset management.
Areas of impact: Rental income, cash flow, vacancy rate, void running costs, property values, net asset value.
Mitigation: Property teams proactively manage customers to ensure changing needs are met, and review the current status of all properties weekly. Written reports are submitted on a monthly basis to senior management on, inter alia, vacancies, lease expiry profiles and progress on rent reviews.

Sustainability Risks

- 1) *Risk:* Increasing building regulation and obsolescence.
Areas of impact: Rental income, cash flow, vacancy rate, net asset value, profitability, liquid resources.
Mitigation: Continual assessment of all properties against emerging regulatory changes. Fit-out and refurbishment projects benchmarked against third-party schemes.
- 2) *Risk:* Increasing energy costs and regulation.
Areas of impact: Net asset value, profitability, liquid resources.
Mitigation: Investment in energy efficient plant and building mounted renewable energy systems.

Funding Risks

- 1) *Risk:* Unavailability of financing at acceptable prices.
Areas of impact: Cost of borrowing, ability to invest or develop.
Mitigation: The Group has a dedicated treasury team and relationships are maintained with the banks thus reducing the credit and liquidity risk.
- 2) *Risk:* Adverse interest rate movements.
Areas of impact: Cost of borrowing, cost of hedging.
Mitigation: The majority of the Group's debt is fixed at 2.65% (2021: 2.65%) until 2032. Exposure to changes in prevailing market rates is limited to a minority of the Group's debt, which is subject to floating rates at the daily compounded SONIA plus 4% (2021: LIBOR plus 4%).
- 3) *Risk:* Breach of borrowing covenants.
Areas of impact: Cost of borrowing.
Mitigation: Financial covenants are monitored and regularly reported to the board.

CLS UK PROPERTY FINANCE 2 LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Political and Economical Risks

- 1) Risk:** Significant events or changes in the Global and/or European political and/or economic landscape may affect the value of the net assets and profitability.
- Areas of impact:** Net asset value, profitability.
- Mitigation:** Global uncertainty and continued effects of the Covid-19 pandemic. The risk remains high given Russia's invasion of Ukraine, the continued impact of the COVID-19 pandemic and economic concerns over, and responses to, higher levels of inflation and slowing GDP. The Company has limited supply chain exposure but changes in construction prices will impact refurbishments costs.

Going Concern Risks

- 1) Risk:** The Group will not have adequate working capital to remain a going concern for the going concern period.
- Areas of impact:** Pervasive.
- Mitigation:** The Directors regularly stress-test the business model to ensure the Group has adequate working capital.

Section 172 (1) Statement

Section 172 (1) of the Companies Act 2006 requires that a director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision

The Board meets regularly to discuss and make decisions on matters of strategic importance to the business, to promote the long- term success of the Company and to consider the likely long-term impact of any such decisions.

(b) Interest's of Company's employees

The CLS Holdings plc Group, of which the Group is a member established a Workforce Advisory Panel in 2019 in relation to workforce engagement. The Panel met four times during 2022 and discussed topics relating to employment conditions and practices within the CLS Holdings plc Group. The discussions from the Panel are fed back to the Board regularly to maintain strong lines of communication throughout the period.

(c) impact of the Company's operations on the community and the enviroment

The Group is committed to having a strong and positive impact and enhancing the lives of those in the communities in which we live and work. The is evidenced through the design concept and build of our buildings.

(d) the desirability of the Company maintaining a reputation for high standards of business conduct

The Group expects the highest standards of conduct from its employees, business partners and suppliers with which it engages. The Group has an established internal risk control and audit process with a range of ethical policies. The Group is fully compliant with all current GDPR laws and employment legislation.

(e) the need to act fairly between members of the Company

The Company is a wholly owned subsidiary of CLS Holdings plc and is a single member company under section 123 (1) of the Companies Act 2006.

Approved by the Board of Directors

By order of the Board



David Fuller

Company Secretary

7 July 2023

CLS UK PROPERTY FINANCE 2 LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their annual report and financial statements for the year ended 31 December 2022.

Principal activities

The Group has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the Company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of:

- Review of the business;
- Business strategy;
- Key performance indicators and performance against key performance indicators;
- Future developments; and
- Principal risks and uncertainties.

Results and dividends

The results for the period are set out on page 12.

No ordinary dividends were paid. The directors do not recommend payment of a further dividend (2021: nil)

Directors

The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

Andrew Kirkman
Alain Millet
David Fuller
Fredrik Widlund

Directors' insurance

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the Directors who held office in 2022. The ultimate parent company CLS Holdings plc maintains liability insurance for its Directors and Directors of its associated companies.

Auditor

The auditor, Ernst & Young LLP, has indicated their willingness to continue in office. Under the provisions of the Companies Act 2006, the Company is not required to hold an annual general meeting and accordingly the auditors, Ernst & Young LLP, will therefore be deemed to be reappointed for each succeeding financial year.

Statement of disclosure to auditor

Each director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

CLS UK PROPERTY FINANCE 2 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022


Going concern

The Directors' going concern assessment covers the period to 31 July 2024. At the time of approving the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence despite the net current liability position at 31 December 2022. The Directors are in receipt of an unequivocal letter of support from the ultimate parent company confirming that sufficient funds will be available to ensure all liabilities are met as they fall due for the period until 31 July 2024, so long as the Group is a wholly owned direct or indirect subsidiary of its current ultimate parent company (note 26). If the Group was sold within the going concern period, confirmation has been received that CLS Holdings plc would ensure the Group remains in a position to continue as a going concern at the point of sale.

The Group's ability to meet future liabilities is therefore dependent on the financial performance, position and liquidity of the CLS Holdings Group as a whole. At the CLS Holdings Group level, considerations included potential risks and uncertainties in the business, credit, market, property valuation and liquidity risks, including the availability and repayment profile of bank facilities, as well as forecast covenant compliance. Stress testing has been carried out to ensure the CLS Holdings Group has sufficient cash resources to continue in operation for the period to 31 July 2024. This stress testing modelled a scenario with lower rents, increased service charges, higher property and administration expenses, falling property values and higher interest rates. Based on these considerations, together with available market information and the directors' knowledge and experience of the Group, the Directors continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2022.

Approved by the Board of Directors

On behalf of the Board



David Fuller

Company Secretary

7 July 2023

CLS UK PROPERTY FINANCE 2 LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with the Companies Act 2006 and United Kingdom adopted International Accounting Standards and have elected to prepare the parent company financial statements in accordance with FRS101 of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- State whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

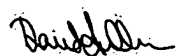
Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The responsibility statement was approved by the Board on 7 July 2023.

Approved and authorised on behalf of the Board.



David Fuller

Company Secretary

CLS UK PROPERTY FINANCE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CLS UK PROPERTY FINANCE 2 LIMITED

Opinion

We have audited the financial statements of CLS UK Property Finance 2 Limited ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheet, the Group Statement of cash flows, the Group and Parent Statement of changes in equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's loss for the year for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 independent of the Group and Parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for the period to 31 July 2024.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

CLS UK PROPERTY FINANCE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CLS UK PROPERTY FINANCE 2 LIMITED

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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 from 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 a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

CLS UK PROPERTY FINANCE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CLS UK PROPERTY FINANCE 2 LIMITED

Matters on which we are required to report by exception

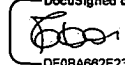
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006) and any relevant direct and indirect tax compliance regulation in the United Kingdom, including the UK REIT Regulations. There are no significant industry specific laws or regulations that we considered in determining our approach.
- We understood how the Group and the Parent Company is complying with those frameworks by enquiry with Management, and by identifying the Company's policies and procedures regarding compliance with laws and regulations. We also identified those members of Management who have the primary responsibility for ensuring compliance with laws and regulations, and for reporting any known instances of non-compliance to those charged with governance. We corroborated our enquiries through our review of Board minutes as well as consideration of the results of our audit procedures to either corroborate or provide contrary evidence which was then followed up. Our assessment included the tone from the top and the emphasis on a culture of honest and ethical behaviour.
- We assessed the susceptibility of the Company's financial statement to material misstatement, including how fraud might occur, by discussing with management to understand where they considered there was susceptibility to fraud. We considered the processes and controls that the Company has established to address risks identified, or that otherwise prevent and detect fraud; and how management monitor those processes and controls. Where the risk was considered to be higher, we performed audit procedure to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved:
 - enquiry of members of senior management, and when appropriate, those charged with governance, regarding their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements;
 - reading minutes of meetings of those charged with governance;
 - obtaining electronic confirmations from the Company's banking providers to vouch the existence of cash balances and completeness of loans and borrowings;
 - obtaining and reading correspondence from legal and regulatory bodies, including the FRC and HMRC, where applicable; and
 - journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Vania Tribos (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

7 July 2023

CLS UK PROPERTY FINANCE 2 LIMITED

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	4 Mar 2021 to 31 Dec 2021
	Notes	£	£
Revenue		7,753,191	6,866,529
Net rental income	3	6,152,713	4,977,009
Administrative expenses		(531,939)	(716,983)
Other expenses		(496,574)	(383,288)
Group revenue less costs		5,124,200	3,876,738
Net revaluation movements on investment property	8	(8,334,354)	1,170,512
Operating (loss)/profit	4	(3,210,154)	5,047,250
Finance income		-	1
Finance costs	6	(2,831,858)	(1,881,447)
(Loss)/profit before taxation		(6,042,012)	3,165,804
Taxation	7	(446,666)	(281,405)
(Loss)/profit and total comprehensive (expense)/income for the financial year attributable to the owners of the Company		(6,488,678)	2,884,399

CLS UK PROPERTY FINANCE 2 LIMITED

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2022

	Notes	2022 £	2021 £
Non-current assets			
Investment property	8	108,025,000	114,200,000
Current assets			
Trade and other receivables	9	7,101,796	1,877,563
Cash and cash equivalents		512,637	347,980
		7,614,433	2,225,543
Current liabilities			
Trade and other payables	10	7,209,025	3,932,377
Current tax liabilities		180,650	281,405
Borrowings	11	873,952	873,952
		8,263,627	5,087,734
Net current liabilities		(649,194)	(2,862,191)
Non-current liabilities			
Trade and other payables	10	22,154,346	18,753,717
Borrowings	11	58,825,738	59,699,692
		80,980,084	78,453,409
Net assets		26,395,722	32,884,400
Equity			
Called up share capital	13	30,001	30,001
Share premium account	14	29,970,000	29,970,000
Retained earnings		(3,604,279)	2,884,399
Total equity		26,395,722	32,884,400

The financial statements were approved by the board of directors and authorised for issue on 7 July 2023 and are signed on its behalf by:



Andrew Kirkman
Director

Company Registration
No. 13245355

CLS UK PROPERTY FINANCE 2 LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital £	Share premium account £	Retained earnings £	Total £
Balance at 4 March 2021		-	-	-	-
Period ended 31 December 2021:					
Profit and total comprehensive income for the period		-	-	2,884,399	2,884,399
Issue of share capital	13	30,001	29,970,000	-	30,000,001
Balance at 31 December 2021		30,001	29,970,000	2,884,399	32,884,400
Year ended 31 December 2022:					
Loss and total comprehensive expense for the year		-	-	(6,488,678)	(6,488,678)
Balance at 31 December 2022		30,001	29,970,000	(3,604,279)	26,395,722

CLS UK PROPERTY FINANCE 2 LIMITED

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

		31 Dec 2022	4 Mar 2021 to 31 Dec 2021
	Notes	£	£
Cash flows from operating activities			
Cash generated from operations	16	4,545,055	24,077,764
Interest received		-	1
Interest paid		(1,669,686)	(1,288,000)
Net cash inflow from operating activities		<u>2,875,369</u>	<u>22,789,765</u>
Investing activities			
Acquisition of investment property		-	(112,853,423)
Capital expenditure on investment properties		(1,836,758)	(87,164)
Net cash used in investing activities		<u>(1,836,758)</u>	<u>(112,940,587)</u>
Financing activities			
Issue of share capital		-	30,000,001
Repayment of borrowings		(873,954)	-
New loans		-	60,498,795
Net cash generated from financing activities		<u>(873,954)</u>	<u>90,498,802</u>
Net increase in cash and cash equivalents		<u>164,657</u>	<u>347,980</u>
Cash and cash equivalents at beginning of period		347,980	-
Cash and cash equivalents at end of period		<u><u>512,637</u></u>	<u><u>347,980</u></u>

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

Company information

CLS UK Property Finance 2 Limited (the 'Company') and its subsidiaries (together the 'Group') are an investment property group which is principally involved in the investment and management of commercial properties in the UK. The Company is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006, and registered in England. The registration number is 13245355 with its registered office at 16 Tinworth Street, London, SE11 5AL.

The principal accounting policies applied in the preparation of these Group financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

1.1 Accounting convention

The financial statements have been prepared on a going concern basis as explained in the Directors' Report on page 6 and have been prepared in accordance with the Companies Act 2006 and United Kingdom adopted International Accounting Standards.

The Board of Directors of CLS Holdings plc have assessed the resilience of the Group. The impact has been considered in the Principal Risks and Uncertainties section of the Strategic Report as set out on pages 3-4.

These financial statements are presented in in pounds sterling, because that is the currency of the primary economic environment in which the Group operates.

New standards and interpretations

In the current year, the Group has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These new standards and amendments are listed below:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Annual improvements to IFRS Standards 2018-2020 (May 2020)
 - IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
 - IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
 - IAS 41 Agriculture – Taxation in fair value measurements

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 – Insurance contracts
- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 1 – Classification of liabilities as current or non current
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies
- Amendments to IAS 8 – Definition of accounting estimates
- Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

Transition from LIBOR to SONIA

The transition from LIBOR to SONIA took place during 2022. There is no resulting financial impact on our results as a result of the transition.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.2 Basis of consolidation

Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity or business to benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of completion, of assets acquired and liabilities assumed. Acquisition-related costs are recognised in the group income statement as incurred.

The prior period financial statements cover the period 4 March 2021 to 31 December 2021 as the Company was incorporated on 4 March 2021. Hence, the comparative results are not comparable.

1.3 Going concern

The Directors' going concern assessment covers the period to 31 July 2024. At the time of approving the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence despite the net current liability position at 31 December 2022. The Directors are in receipt of an unequivocal letter of support from the ultimate parent company confirming that sufficient funds will be available to ensure all liabilities are met as they fall due for the period until 31 July 2024, so long as the Group is a wholly owned direct or indirect subsidiary of its current ultimate parent company (note 26). If the Group was sold within the going concern period, confirmation has been received that CLS Holdings plc would ensure the Group remains in a position to continue as a going concern at the point of sale.

The Group's ability to meet future liabilities is therefore dependent on the financial performance, position and liquidity of the CLS Holdings Group as a whole. At the CLS Holdings Group level, considerations included potential risks and uncertainties in the business, credit, market, property valuation and liquidity risks, including the availability and repayment profile of bank facilities, as well as forecast covenant compliance. Stress testing has been carried out to ensure the CLS Holdings Group has sufficient cash resources to continue in operation for the period to 31 July 2024. This stress testing modelled a scenario with lower rents, increased service charges, higher property and administration expenses, falling property values and higher interest rates. Based on these considerations, together with available market information and the directors' knowledge and experience of the Group, the Directors continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2022.

1.4 Revenue

Rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term. Direct costs associated with securing the rental income are also recognised on a straight-line basis over the lease term.

Fixed or contractually defined rental increases, which can take the form of actual amounts or agreed percentages, are recognised on a straight-line basis over the term. Rental increases related to a price index are recognised when the increase takes place. Lease incentives being offered to tenants to enter into a lease, such as an initial rent-free period or a cash contribution to fit out or similar costs, are part of the net consideration for the use of the property and are therefore recognised on the same straight-line basis. Lease incentives are not held as separate assets or liabilities on the balance sheet but are instead included within the investment property balance.

Where the total consideration due under a lease is modified, for example to remove a break or extend the term, the revised remaining consideration due is recognised on a straight-line basis over the remaining term of the lease. Lease modifications are accounted for from the effective date of modification. Initial direct costs associated with the original lease continue to be recognised and amortised over the remaining term of the modified lease.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

Service charge income

Service charge income relates to expenditure that is directly recoverable from tenants and is recognised in accordance with IFRS 15, which prescribes the use of a five-step model for the recognition of revenue. Revenues are recognised in the period in which it is earned as tenants benefit from the services as soon as they are rendered by the Company. Service charge income is based on actual service charge costs incurred.

1.5 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to direct expenditure between the date of gaining planning consent and the date of practical completion.

Investment properties are measured initially at cost, including related transaction costs. Transaction costs include transfer taxes and professional fees for legal services. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to expenditure on the development between the date of gaining planning consent and the date of practical completion.

The Group recognises sales and purchases of investment property when control passes on completion of the contract. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous year, adjusted for subsequent capital expenditure.

Investment properties are carried at fair value, based on market value as determined by professional external valuers at the balance sheet date. Investment properties being redeveloped for continuing use as investment properties, or for which the market has become less active, continue to be classified as investment properties and measured at fair value. Changes in fair values are recognised in the Income Statement.

Transfers are made to (or from) investment property only when there is evidence of a change in use. To comply with IAS 40 para 50, lease incentives are not held as separate assets or liabilities on the balance sheet but are instead included within the investment property balance.

1.6 Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the Income Statement over the period of the borrowings, using the effective interest rate method.

When debt refinancing occurs, existing liabilities are treated as being extinguished when the new liability is substantially different from the existing liability. To determine if a refinancing is substantially different, the Group considers the transaction as a whole, taking into account both qualitative and quantitative characteristics.

Borrowing costs attributable to the construction of a qualifying asset are capitalised at the weighted average borrowing rate for the applicable region on direct expenditure incurred between the date of gaining planning consent and the date of practical completion.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and other short-term liquid investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.8 Trade and other receivables and payables

Trade and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost with a recognised loss allowance for expected credit losses which are measured at an amount equal to the lifetime expected credit loss.

Trade and other payables are stated at cost, which equates to fair value.

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is based on taxable profit for the period and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1.10 Leases

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

2 Critical accounting estimates and judgements

Accounting judgements

The Directors have considered the judgements that have been made in the process of applying the Company's accountings policies, which are described in note 1, and which of those judgements have the most significant effect on the amounts recognised in the financial statements. The following are ongoing areas of accounting judgement;

- Compliance with the Real Estate Investment Trust (REIT) taxation regime in the United Kingdom
- Classification of leases to tenants as operating leases.

Key sources of estimation uncertainty

Valuation of properties

The Group uses the valuations performed by its independent external valuers as the fair value of its investment properties and those properties held at valuation and classified as property, plant and equipment. The valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

Climate change

In preparing the financial statements, the Group has considered the impact of climate change. These considerations included the limited exposure in terms of our properties to potential physical climate risks along with the CLS Holdings Group's commitment to invest £65 million in its Net Zero Carbon pathway. On this basis, the Group has concluded that climate change did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that this is not expected to have a significant impact on the Group's going concern. The Group considers that this will remain the case until approximately 2030 after which the differing climate scenarios diverge resulting in different risk profiles, the impact and mitigations of which will be captured in the Climate Resilience strategy being developed by the CLS Holdings Group.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

3 Net rental income

The Group has a single operating segment as all income is derived from its investment properties within the United Kingdom.

	2022	4 Mar 2021 to 31 Dec 2021
	£	£
Rental income	5,826,245	4,642,010
Other property related income	216,779	385,920
Service charge income	1,710,167	1,838,599
Service charge and similar expenses	(1,600,478)	(1,889,520)
	<u>6,152,713</u>	<u>4,977,009</u>

4 (Loss)/profit for the year

	2022	4 Mar 2021 to 31 Dec 2021
	£	£
Loss/profit for the period is stated after charging:		
Fees payable to the Group auditor for the audit of the Group financial statements	52,788	42,020
Provision against trade receivables	<u>529,747</u>	<u>381,751</u>

No fees were payable to Ernst & Young LLP for non-audit services to the Group during the year (2021: Deloitte LLP: nil).

5 Employees

The Company did not have any employees in the year (2021: period none)

The Directors are considered to be key management of the Group. No fees or other emoluments were paid to the Directors of the Group during the year (2021: period nil) in respect of their services to the Group. The Directors were paid by another entity within the Group.

6 Finance costs

	2022	4 Mar 2021 to 31 Dec 2021
	£	£
Interest on bank overdrafts and loans	1,608,220	1,151,452
Interest payable to group undertakings	1,162,173	593,453
Amortisation of loan issue costs	61,465	91,353
Other finance costs	-	45,189
	<u>2,831,858</u>	<u>1,881,447</u>

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

7 Income tax expense

	2022	4 Mar 2021 to 31 Dec 2021
	£	£
Current tax		
Current year/period taxation	446,666	281,405

The rate of corporation tax for the year beginning 1 January 2022 was 19% (2021: 19%). The weighted average corporation tax rate for the period ended 31 December 2022 was 19% (2021: 19%).

The Company is a Real Estate Investment Trust (REIT). As a result, it does not pay UK corporation tax on the profits or losses from qualifying rental business in the UK provided it meets certain conditions. Non-qualifying profits and losses continue to be subject to corporation tax as normal.

The charge for the period can be reconciled to the profit per the income statement as follows:

	2022	4 Mar 2021 to 31 Dec 2021
	£	£
(Loss)/profit before taxation	(6,042,012)	3,165,804
Expected tax (credit)/charge based on a corporation tax rate of 19%	(1,147,982)	601,503
Non Deductible loss from UK REIT	1,395,464	-
Capital allowances	-	(91,710)
Non deductible loss on property revaluation	-	(222,397)
Adjustments in respect of prior periods	199,184	(5,991)
Tax charge for the period	446,666	281,405

8 Investment property

	2022	2021
	£	£
Fair value		
At 1 January 2022/At 4 March 2021	114,200,000	-
Additions through acquisition	-	112,853,423
Additions through subsequent expenditure	1,652,600	78,068
Rent-free period debtor adjustments	322,597	88,901
Revaluation of investment property	(8,334,354)	1,170,512
Capitalised leasing costs	184,157	9,096
At 31 December	108,025,000	114,200,000

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

8 Investment property

(Continued)

The investment properties were revalued at 31 December 2022 to their fair value, based on current prices in an active market for all properties. The property valuations were carried out by Cushman and Wakefield who are external, professionally qualified valuers.

Property valuations are complex and require a degree of judgement and are based on data which is not publicly available. Consistent with EPRA guidance, we have classified the valuations of our property portfolio as level 3 as defined by IFRS 13. Inputs into the valuations include equivalent yields and rental income and are described as 'unobservable' under the definition in IFRS 13. All other factors remaining constant, an increase in rental income would increase valuations, whilst an increase in equivalent nominal yield would result in a fall in value and vice versa.

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No contingent rents have been recognised in the current period. Substantially all investment properties are secured against debt.

Valuation techniques

The fair value of the property portfolio has been determined using an income capitalisation approach (excluding ongoing developments), whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions.

Ongoing developments are valued under the 'residual method' of valuation, which is the same of the method of valuation described above, with a deduction for all costs necessary to complete the development, including a notional finance cost, together with a further allowance for remaining risk. As the development approaches completion, the valuer may consider the income capitalisation approach to be more appropriate.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between any of the levels in the fair value hierarchy during the year (2021: none).

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a loss of £8,334,354 (2021: gain £1,170,512) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'.

All gains and losses recorded in profit or loss in the current year for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2022 and 2021, respectfully.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

8 Investment property

(Continued)

Quantitative information about fair value measurement using unobservable inputs (Level 3)

ERV		Equivalent Yield	
Average	Range	Average	Range
2022	2022	2022	2022
£ per sq. ft	£ per sq. ft	%	%
39.1	24.33-55.67	5.62	5.50 - 5.75

ERV		Equivalent Yield	
Average	Range	Average	Range
2021	2021	2021	2021
£ per sq. ft	£ per sq. ft	%	%
40.14	22.62-55.42	5.42	5.13 - 5.74

Sensitivity of measurement to variations in the significant unobservable inputs

All other factors remaining constant, an increase in ERV would increase valuations, whilst an increase in the equivalent yield would result in a fall in value, and vice versa. There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in ERV and would mitigate its impact on the fair value measurement.

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £5,465,118 (2021: £5,634,718) whilst a 25 basis point increase would decrease the fair value by 2022: £4,807,060 (2021: £5,253,013).

A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £4,335,536 (2021: £3,896,889) whilst an increase in the ERV by 5% would result in an increase in the fair value of the Group's investment property by £4,504,592 (2021: £4,810,327).

9 Trade and other receivables

	Current 2022 £	2021 £
Trade receivables	1,475,382	1,190,865
Provision for bad and doubtful debts	(529,747)	(381,751)
	<u>945,635</u>	<u>809,114</u>
Amounts owed by fellow group undertakings	5,277,085	74,843
Other receivables	671,949	760,344
Prepayments	207,127	233,262
	<u>7,101,796</u>	<u>1,877,563</u>

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

10 Trade and other payables

	Current		Non-Current	
	2022	2021	2022	2021
	£	£	£	£
Trade payables	146,505	80,831	-	-
Amounts owed to fellow group undertakings	3,910,208	400,298	22,154,346	18,753,717
Accruals and other creditors	1,157,718	1,713,699	-	-
VAT payable	183,614	131,649	-	-
Deferred income	1,810,980	1,605,900	-	-
	<u>7,209,025</u>	<u>3,932,377</u>	<u>22,154,346</u>	<u>18,753,717</u>

Payables include a balance of £22,154,346 (2021: £18,753,717) due to a fellow group undertaking, which is due for repayment on 31 December 2033. Interest on the loan was charged at the daily compounded SONIA plus 4% (2021: LIBOR plus 4%).

11 Borrowings

	Current		Non-current	
	2022	2021	2022	2021
	£	£	£	£
Borrowings held at amortised cost:				
Bank loans	<u>873,952</u>	<u>873,952</u>	<u>58,825,738</u>	<u>59,699,692</u>

On 27 April 2021, the Group entered into a loan agreement for £62,000,000. The loan comprises one tranche which is due for repayment on 27 April 2033. Interest is charged on the loan at a fixed rate of 2.65%.

The loan is secured by way of a legal charge over the Group's investment property portfolio, and over the shares of the companies within the Group.

Secured green loans

The Group's debt portfolio includes one sustainability linked loan:

- £60.1m maturing in 2033

This loan has an interest rate margin incentive for meeting annual sustainability targets which align with our Net Zero Carbon Pathway for the properties which are securing them. The targets have been independently verified to be aligned with the Loan Market Association (LMA) Sustainability-Linked loan principles. The targets set for any given year are based on actual ESG data/milestones achieved in the prior year. Each of the 2022 targets (tested on 31 December 2021 actual results) have been met resulting in lower interest rates being applied to these loans. The reduction in interest rate margin is not considered to be a substantial modification of the loan terms.

Loan covenants

There were no covenant breaches at 31 December 2022 or 31 December 2021. Banking covenants include loan-to-value and income related covenants. In addition, the Group has one "green" loan, which has a 10-basis point incentive for certain sustainability targets.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

11 Borrowings

(Continued)

The maturity profile of the carrying amount of the Group's borrowings was as follows:

	2022 £	2021 £
Within one year or on demand	935,417	935,417
More than one year but not more than two years	1,870,833	1,870,833
More than two but not more than five years	2,806,250	2,806,250
More than five years	54,721,875	55,657,292
	<u>60,334,375</u>	<u>61,269,792</u>
Unamortised issue costs	(634,685)	(696,148)
	<u>59,699,690</u>	<u>60,573,644</u>
Borrowings		
Less amounts due for settlement within 12 months	(873,952)	(873,952)
	<u>58,825,738</u>	<u>59,699,692</u>
Amounts due for settlement after 12 months		

The interest rate risk profile for the Group's borrowings was as follows:

	2022		2021	
Fixed rate borrowings	2.6	10.3	2.6	11.3

The carrying amounts and fair values of the Group's borrowings were as follows:

	2022		2021	
	£	£	£	£
	Carrying amount	Fair value	Carrying amount	Fair value
Fixed rate borrowings	<u>59,699,690</u>	<u>46,854,861</u>	<u>61,269,792</u>	<u>60,408,441</u>

Arrangement fees of £634,685 (2021: £696,148) have been offset in arriving at the balances in the above table.

The fair value of non-current borrowings represents the amount at which a financial instrument could be exchanged at an arm's length transaction between informed and willing parties, discounted at the prevailing market rate, and excludes accrued interest.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

12 Financial instruments

Categories of financial instruments

Financial assets of the Group comprise: trade and other receivables, intra-group loans, and cash and cash equivalents.

Financial liabilities of the Group comprise: trade and other payables, intra-group loans and secured notes.

Except for fixed rate loans, the carrying amounts of all financial assets and liabilities recorded at amortised costs approximate to their fair value.

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents, and equity attributable to the owners of the parent, comprising issued capital and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met. The objectives have been met in the year and in the prior year.

The Directors regularly review the capital structure to ensure that key strategic goals are being achieved. As part of this review they consider the cost of capital and the risks associated with each class of capital.

The gearing ratio at the period end was as follows:

	2022	2021
	£	£
Debt	60,334,375	61,269,792
Cash and cash equivalents	(512,637)	(347,980)
Net debt	59,821,738	60,921,812
Equity	26,395,723	32,862,996
Net debt to equity ratio	227%	185%

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

12 Financial instruments

(Continued)

Debt is defined as interest bearing long and short-term borrowings before unamortised issue costs as detailed in note 11. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Externally imposed capital requirement

The Group was subject to externally imposed capital requirements to the extent that debt covenants may require it to maintain required ratios of debt to equity and interest cover.

Risk management objectives

The Group's activities expose it to a variety of financial risks, which can be grouped as:

- market risk;
- credit risk; and
- liquidity risk

The Group's overall risk management approach seeks to minimise potential adverse effects on the Group's financial performance whilst maintaining flexibility.

Risk management is carried out by the Board of Directors. The Board regularly assesses and reviews the financial risks and exposures of the Group.

(a) Market risk/ Interest rate risk

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group has mitigated this risk through securing borrowings at a fixed interest rate.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from the ability of customers to meet outstanding receivables and future lease commitments, and from financial institutions with which the Group places cash and cash equivalents. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets which are carried in the balance sheet. For credit exposure other than to occupiers, the Directors believe that counterparty risk is minimised to the fullest extent possible as the Group has policies which limit the amount of credit exposure to any individual financial institution.

The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Credit risk to customers is assessed by a process of internal and external credit review, and is reduced by obtaining bank guarantees from the customer or its parent, and rental deposits. The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, currently, 100% of the Group's portfolio is let to Government occupiers which can be considered financially secure.

(c) Liquidity risk

Liquidity risk management requires maintaining sufficient cash, other liquid assets and the availability of funding to meet short, medium and long-term requirements. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flows so that future requirements can be managed effectively.

Loan covenant compliance is closely monitored. Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender or by partial repayment before an event of default takes place. There were no potential loan-to-value covenant breaches at 31 December 2021.

The table below analyses the Group's contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities at the balance sheet date, into relevant maturity groupings based on the period remaining to the contractual maturity date. Amounts due within one year are equivalent to the carrying values in the balance sheet as the impact of discounting is not significant.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

13 Share capital

	2022	2021
	£	£
Ordinary share capital <i>Issued and fully paid</i>		
30,0001 ordinary shares of £1 each	30,001	30,001

On 4 March 2021, 30,001 ordinary £1 shares were issued at £1,000 each. The Company has one class of ordinary shares which carry no right to fixed income.

14 Share premium account

	2022	2021
	£	£
At 1 January 2022/At 4 March 2021	29,970,000	-
Issue of new shares	-	29,970,000
At 31 December	29,970,000	29,970,000

15 Related party transactions

The Group is part of the CLS Holdings plc group and incurs expenses from, and retains balances with, other subsidiaries within this group.

At 31 December 2022, the Group was owed from a fellow group companies £5,277,085 (2021: £74,849). These balances are repayable on demand and are interest free.

At 31 December 2022, the Group owed fellow group companies £3,910,208 (2021: £400,298). These balances are repayable on demand and are interest free. The Group owed a fellow group company, NYK Investments Limited, a total of £22,154,346 (2021: £18,753,717). The loan is due for repayment on 31 December 2033 and interest is charged at a rate of SONIA plus a margin of 4% (2021: LIBOR plus a margin of 4%). For the year ended 31 December 2022, a total of £1,162,173 (2021: £593,447) in interest relating to this loan was included in the Group's income statement.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

16 Cash generated from operations

	2022	4 Mar 2021 to 31 Dec 2021
	£	£
(Loss)/profit for the year/period after tax	(3,210,154)	5,047,250
Adjustments for:		
Net movements on revaluation of investment properties	8,334,354	(1,170,512)
Non-cash rental income	(322,597)	(88,901)
Movements in working capital:		
Increase in trade and other receivables	(5,224,233)	(1,802,720)
Decrease/increase in trade and other payables	4,967,685	22,092,648
Cash generated from operations	4,545,055	24,077,764

17 Other leasing information

Lessor

At the balance sheet date the Group had contracted with customers for the following future minimum lease payments:

	2022	2021
	£	£
Within one year	5,911,093	6,231,865
More than one but not more than five years	12,234,360	17,542,080
More than five years	20,698,011	19,144,931
	38,843,464	42,918,876

Operating leases where the Group is the lessor are typically negotiated on a tenant-by-tenant basis and include break clauses and indexation provisions. Rental income earned during the year was £5,826,245 (2021: period £4,642,010) and direct operating expenses arising on the properties in the year was £1,600,478 (2021: period £1,889,520). The lessees do not have an option to purchase the property at the expiry of the lease year.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

18 Subsidiaries

The Group financial statements include the financial statements of CLS UK Property Finance 2 Limited and all of its subsidiaries.

The subsidiaries are 100% owned and listed below:

Registered Office: 16 Tinworth Street, London, SE11 5AL

CLS Church Road Limited

CLS Cliffords Inn Limited

CLS Priory Place Limited

CLS Watford Limited

Fetter Lane Apartments Limited

Fetter Lane Leasehold Limited

Ingrove Limited

Kennington Road Limited

The principal activity of these subsidiaries is property investment and all are incorporated in United Kingdom.

CLS UK PROPERTY FINANCE 2 LIMITED**COMPANY BALANCE SHEET****AS AT 31 DECEMBER 2022**

	Notes	2022 £	2021 £
Non-current assets			
Investments	22	28,889,935	28,889,935
Current assets			
Debtors falling due after one year	23	81,602,186	81,046,208
Trade and other receivables	23	2,057,289	863
Current tax recoverable		-	82,152
Cash and cash equivalents		249	12,270
		83,659,724	81,141,493
Current liabilities			
Trade and other payables	24	328,322	358,144
Current tax liabilities		23,983	-
Borrowings		935,417	935,417
		1,287,722	1,293,561
Net current assets		82,372,002	79,847,932
Non-current liabilities			
Trade and other payables	24	22,152,345	18,753,717
Borrowings		59,398,958	60,334,375
		81,551,303	79,088,092
Net assets		29,710,634	29,649,775
Equity			
Called up share capital	25	30,001	30,001
Share premium account		29,970,000	29,970,000
Retained earnings		(289,367)	(350,226)
Total equity		29,710,634	29,649,775

As permitted by s408 Companies Act 2006, the company has not presented its own income statement and related notes. The company's profit for the year was £60,859 (2021 period: £350,226 loss).

The financial statements were approved by the board of directors and authorised for issue on 7 July 2023 and are signed on its behalf by:



Andrew Kirkman
Director

Company Registration No. 13245355

CLS UK PROPERTY FINANCE 2 LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital £	Share premium account £	Retained earnings £	Total £
Balance at 4 March 2021		-	-	-	-
Period ended 31 December 2021:					
Loss and total comprehensive expense for the period		-	-	(350,226)	(350,226)
Issue of share capital	25	30,001	29,970,000	-	30,000,001
Balance at 31 December 2021		30,001	29,970,000	(350,226)	29,649,775
Year ended 31 December 2022					
Profit and total comprehensive income for the year		-	-	60,859	60,859
Balance at 31 December 2022		30,001	29,970,000	(289,367)	29,710,634

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

19 Accounting policies

Company information

CLS UK Property Finance 2 Limited (the "Company") is incorporated in the United Kingdom under Companies Act 2006, with registration number 13245355 and registered office at 16 Tinworth Street, London, SE11 5AL.

These separate financial statements are presented as required by the Companies Act 2006 and prepared on the historical cost basis.

CLS Holdings plc is the ultimate parent company of the CLS UK Property Finance Limited. The Company's primary activity (which occurs exclusively within the United Kingdom) is to hold shares in subsidiary companies.

19.1 Accounting convention

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 *Reduced Disclosure Framework* as issued by the Financial Reporting Council.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

19.2 Going concern

The Directors' going concern assessment covers the period to 31 July 2024. At the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence. The Directors are in receipt of an unequivocal letter of support from the ultimate parent company confirming that sufficient funds will be available to ensure all liabilities are met as they fall due for the period until 31 July 2024, so long as the Company is a wholly owned direct or indirect subsidiary of its current ultimate parent company. If the Company was sold within the going concern period, confirmation has been received that CLS Holdings plc would ensure the Company remains in a position to continue as a going concern at the point of sale.

The Group's ability to meet future liabilities is therefore dependent on the financial performance, position and liquidity of the CLS Holdings Group as a whole. At the CLS Holdings Group level, considerations included potential risks and uncertainties in the business, credit, market, property valuation and liquidity risks, including the availability and repayment profile of bank facilities, as well as forecast covenant compliance. Stress testing has been carried out to ensure the CLS Holdings Group has sufficient cash resources to continue in operation for the period to 31 July 2024. This stress testing modelled a scenario with lower rents, increased service charges, higher property and administration expenses, falling property values and higher interest rates. Based on these considerations, together with available market information and the directors' knowledge and experience of the Group, the Directors continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2022.

19.3 Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment. Dividend income is recognised when received.

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

19 Accounting policies

(Continued)

19.4 Called up share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax.

Where a Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and are included in equity attributable to the owners of the Company.

20 Critical accounting estimates and judgements

Accounting judgements

The Directors have considered the judgements that have been made in the process of applying the Company's accountings policies, which are described in note 1, and which of those judgements have the most significant effect on the amounts recognised in the financial statements. The following are ongoing areas of accounting judgement;

- Impairment of investments;
- Classification of leases to tenants as operating leases.

Key sources of estimation uncertainty

In the Directors' opinion for the year ended 31 December 2022 there are no accounting estimates that are material to the financial statements.

21 Employees

The Company did not have any employees in the period.

No fees or other emoluments were paid to the Directors of the Company during the period in respect of their services to the Company. The Directors were paid by another entity within the Group.

22 Investments

	2022	2021
	£	£
Investments	28,889,935	28,889,935

CLS UK PROPERTY FINANCE 2 LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

23 Trade and other receivables

	Current 2022	2021 £	Non-current 2022	2021 £
Amounts owed by fellow group undertakings	2,056,426	-	81,602,186	81,046,208
Other receivables	863	863	-	-
	<u>2,057,289</u>	<u>863</u>	<u>81,602,186</u>	<u>81,046,208</u>

Receivables include balances of £81,602,186 (2021: £81,046,208) due from fellow group undertakings, which are due for repayment on 31 December 2033. Interest on loans was charged at a rate of SONIA plus a margin of 4% (2021: LIBOR plus a margin of 4%).

24 Trade and other payables

	Current 2022 £	2021 £	Non-current 2022 £	2021 £
Amounts owed to fellow group undertakings	-	15,840	22,152,345	18,753,717
Accruals	328,322	342,304	-	-
	<u>328,322</u>	<u>358,144</u>	<u>22,152,345</u>	<u>18,753,717</u>

Payables include a balance of £22,152,345 (2021: £18,753,717) due to a fellow group undertaking, which is due for repayment on 31 December 2033. Interest on loans was charged at the daily compounded SONIA plus a margin of 4% (2021: LIBOR plus a margin of 4%).

25 Share capital

Refer to note 13 of the group financial statements.

26 Controlling party

The Directors consider that the immediate and ultimate parent undertaking and ultimate controlling party is CLS Holdings plc, which is incorporated in the United Kingdom. The financial statements of the Company are consolidated into the CLS Holdings plc group accounts for the year ended 31 December 2021, being the largest and only Group into which the Company's financial statements are consolidated. Copies of the Group financial statements are publicly available and may be obtained from its registered address, CLS Holdings plc, 16 Tinworth Street, London, SE11 5AL.