

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Section 301(c), 301(d), 305(b)(2), 305(c), and 316

Blank lines for listing applicable Internal Revenue Code sections.

18 Can any resulting loss be recognized? ▶ The transactions did not result in a loss.

Blank lines for providing information regarding loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ 2020 calendar year.

Blank lines for providing other necessary information.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here Signature ▶ Catherine Hastings Date ▶ 2/1/2021

Print your name ▶ Catherine Hastings Title ▶ Chief Financial Officer

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶			Firm's EIN ▶	
	Firm's address ▶			Phone no.	

IIP Operating Partnership, LP
Appendix A to Form 8937
Q4 2020 Exchange Rate Adjustment

IIP Operating Partnership, LP (the “Operating Partnership”), a wholly owned subsidiary of Innovative Industrial Properties, Inc. (NYSE: IIPR) (the “Company”), had outstanding \$143,749,000 in aggregate principal amount of 3.75% Exchangeable Senior Notes due 2024 (the “Exchangeable Senior Notes”) as of December 31, 2020. The Exchangeable Senior Notes are exchangeable for cash, shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”), or a combination of cash and shares of the Company’s Common Stock, at the Operating Partnership’s option, at any time prior to the close of business on the second scheduled trading day immediately preceding the stated maturity date. The terms of the Exchangeable Senior Notes include antidilutive protections that provide for an increase in the number of shares of the Common Stock issued by the Company upon exchange of the Exchangeable Senior Notes in the event of changes in the quarterly cash dividends on the Common Stock. The change in the exchange rate on the Exchangeable Senior Notes shall occur on the ex-dividend date for the quarterly cash dividend paid on the Common Stock.

Section 6045B of the United States Internal Revenue Code (the “Code”) and the Treasury Regulations promulgated thereunder provide that if a company pays a cash dividend with respect to its stock that results in a conversion rate adjustment on a convertible debt instrument that is treated as a deemed distribution under Section 305(b)(2) and (c) of the Code, an information return on Form 8937, *Report of Organizational Actions Affecting the Stock Basis of Securities*, must be filed with the Internal Revenue Service or, in lieu of filing, posted to the company’s public website.

The information contained in the attached Form 8937 and this Appendix A is intended to satisfy the public reporting requirements under Section 6045B of the Code and is intended to provide only a general summary of certain United States federal income tax consequences of the exchange rate adjustment. Such information is not intended to be a complete analysis or description of all potential deferral or other tax consequences of the exchange rate adjustment. You should consult with your own tax advisor to determine the particular federal, state, local, or foreign income, reporting, or other tax consequences of the exchange rate adjustment applicable to you.

Line 14 – Description of the Organization Action

On December 14, 2020, the Company declared a quarterly cash dividend of \$1.24 per share with respect to its Common Stock, payable on January 15, 2021 to shareholders of record as of the close of business on December 31, 2020. The dividend resulted in an increase to the exchange rate of the Exchangeable Senior Notes effective December 30, 2020. The increase in the exchange rate resulted in a deemed distribution per \$1,000 of the Exchangeable Senior Notes of \$13.39115.

Line 15 – Description of the Quantitative Effect of the Organizational Action

The taxable portion of a deemed distribution increases the basis of the notes in the hands of the taxpayer. The non-taxable portion of the deemed distribution does not affect the basis of the notes in the hands of the taxpayer. The table below shows the taxable and non-taxable portions of each deemed distributions per \$1,000 principal amount of the Exchangeable Senior Notes:

Deemed Distribution Date	Deemed Distribution	Taxable Portion (Deemed Dividend)	Non-Taxable Portion
12/30/2020	\$ 13.39115	\$ 13.39115	\$ 0.0000

Tax Characterization of Taxable Portion

Deemed Distribution Date	Taxable Deemed Distribution	Ordinary Dividend (Box 1a)	Qualified Dividend (Box 1b)	Capital Gain Distribution (Box 2a)	Section 199A Dividends (Box 5) ⁽¹⁾
12/30/2020	\$ 13.39115	\$ 13.39115	\$ 0.00000	\$ 0.00000	\$ 13.39115

(1) These amounts are a subset of, and included in, Taxable Ordinary Dividend amounts.

Line 16 – Description of the Calculation of the Changes

Each of the exchange rate adjustments was treated for U.S. federal income tax purposes under Code Section 305(c) and consistent with Prop. Reg. Section 1.305-7(c)(4)(i)(A)-(B), (4/13/2016) as a deemed distribution in an amount equal to the excess of (i) the fair market value of the right to acquire stock immediately after the applicable adjustment over (ii) the fair market value of the right to acquire stock without the applicable adjustment. The portion of the deemed distribution that is taxable is based on the allocable share of the earnings and profit. The Company's earnings and profits were calculated under Code Section 312 (as modified by Code Section 857(d) for real estate investment trust), and the regulation thereunder.

The calculation of the change to the exchange rate per \$1,000 principal amount of the Exchangeable Senior Notes is set forth below (with such capitalized terms not defined herein having the meanings ascribed to them in the indenture governing the Exchangeable Senior Notes):

$$ER1 = ER0 \times (SPO - DTA) / (SPO - C)$$

ER0 = the Exchange Rate in effect immediately prior to the Open of Business on the Ex-Dividend Date for such dividend or distribution.

ER1 = the Exchange Rate in effect immediately after the Open of Business on the Ex-Dividend Date for such dividend or distribution.

SPO = the Last Reported Sale Price of the Common Stock on the Trading Day immediately preceding the Ex-Dividend Date for such dividend or distribution.

DTA = the "Dividend Threshold Amount," which shall initially be \$0.35 per share per quarter.

C = the amount in cash per share that the Company distributes to all or substantially all holders of the Common Stock.

The basis adjustment on December 30, 2020 was calculated as follow:

$SPO (\$181.28) * \text{Exchange Rate Adjustment } [ER1(15.01810) - ER0(14.94423)] = \$13.39115 \text{ per } \$1,000$
principal amount of the Exchangeable Senior Notes.