BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Financial Statements
September 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors
Blackburne & Sons Realty Capital Corporation
and Affiliate
Sacramento, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Blackburne & Sons Realty Capital Corporation and Affiliate which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Supplementary Information
The supplementary information included in the schedules of trust fund liabilities and cash in bank is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review we are not aware of any material modifications that should be made to the information for it to be in accordance with the cash basis of accounting. We have not audited the information and accordingly, do not express an opinion on such information.

Restriction of Use
This report is intended solely for the information and use of the management of Blackburne & Sons Realty Capital Corporation and the California Bureau of Real Estate and is not intended to be, and should not be used by anyone other than these specified parties.

Boden Klein & Sneesby

BODEN KLEIN & SNEESBY
Certified Public Accountants
Roseville, CA

December 21, 2019

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
September 30, 2019 and 2018

ASSETS

	2019	2018
Current assets:		
Cash	$ 4,516	$ 5,778
Mortgage servicing rights	673,381	582,030
Prepaid expenses	7,094	10,580
Prepaid income taxes	2,253	4,494
Other receivables	32,926	116,195
Total current assets	720,170	719,077
Property and equipment, net	16,359	21,251
Other assets:		
Investment in partnerships	164,716	159,625
Intangible asset, net	57,152	65,652
Mortgage servicing rights - net of current portion	776,420	557,210
Total other assets	998,288	782,487
TOTAL ASSETS	$ 1,734,817	$ 1,522,815
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 1,078,277	$ 1,448,926

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
September 30, 2019 and 2018

LIABILITIES AND STOCKHOLDERS' EQUITY

	2019	2018
Current liabilities:		
Accounts payable	$ 51,878	$ 45,609
Accrued expenses	36,594	33,468
Lease payable	2,964	2,964
Shareholder note payable	173,073	160,048
Line of credit	58,000	76,000
Total current liabilities	322,509	318,089
Non-current liabilities:		
Lease payable, net of current portion	1,143	4,470
Deferred income taxes	368,312	310,925
Total non-current liabilities	369,455	315,395
Total liabilities	691,964	633,484
Stockholders' equity:		
Common stock - no par value, authorized, issued and outstanding, 100 shares	312	312
Additional paid-in capital	100	100
Retained earnings	1,042,441	888,919
Total stockholders' equity	1,042,853	889,331
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,734,817	$ 1,522,815
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 1,078,277	$ 1,448,926

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2019 and 2018

	2019	2018
Revenues:		
Servicing fees	$ 786,984	$ 1,049,171
Loan commissions	437,086	351,616
Property management fees	174,602	154,679
Software licensing fees	124,006	122,260
Fund management fees	49,500	128,586
Video and manual sales	41,469	20,589
Amortization of mortgage servicing rights	310,561	(279,907)
Total revenue	1,924,208	1,546,994
Expenses:		
Salaries	748,860	697,832
Salaries - George Blackburne	250,488	250,488
Salaries - Francisca Blackburne	53,328	53,328
Outside consultants	99,415	67,406
Other expenses	86,782	102,692
Marketing	84,056	110,071
Insurance	74,659	59,602
Payroll taxes	73,633	71,110
Retirement plan contributions	40,040	39,168
Office expense	32,528	35,395
Office rent	31,774	34,456
Employee benefits	27,862	45,818
Automobile	21,388	19,332
Telephone and utilities	18,247	32,529
Legal	15,485	29,601
Tax and license	14,734	16,637
Accounting	14,580	16,473
Loan arrangement fees	14,152	16,649
Depreciation	13,392	13,424
Travel	11,611	4,488
Maintenance and repairs	10,926	10,479
Education	10,340	5,386
Equipment lease	5,258	4,447
Total expenses	1,753,538	1,736,811
Income (loss) from operations	170,670	(189,817)

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2019 and 2018

	2019	2018
Income (loss) from operations (continued)	$ 170,670	$ (189,817)
Other income (expense):		
Interest expense	(20,059)	(10,946)
Income from partnerships	5,091	1,237
Other fees and income	58,352	17,375
Total other income (expense)	43,384	7,666
Income (loss) before income taxes	214,054	(182,151)
Income tax expense	60,532	15,727
NET INCOME (LOSS)	153,522	(197,878)
Retained earnings, beginning of year	888,919	1,086,797
RETAINED EARNINGS, END OF YEAR	$ 1,042,441	$ 888,919

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Cash Flows
For the Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income (loss)	$ 153,522	$ (197,878)
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities:		
Depreciation	13,392	13,424
Amortization & impairment of mortgage servicing rights	568,187	789,339
Additions to mortgage servicing rights	(878,748)	(509,432)
Accrued interest, shareholder note payable	13,025	7,798
(Income) from partnerships	(5,091)	(1,237)
Deferred income taxes	57,387	14,127
Changes in operating assets and liabilities:		
Prepaid expenses	3,486	(4,622)
Prepaid income taxes	2,241	(825)
Other receivables	83,269	(101,233)
Accounts payable	6,269	(28,112)
Accrued expenses	3,126	1,451
Net cash provided (used) in operating activities	20,065	(17,200)
Cash flows from investing activities:		
Investment in partnership	-	(55,000)
Purchase of property and equipment	-	(10,523)
Net cash (used) in investing activities	-	(65,523)
Cash flows from financing activities:		
Advances on line of credit	1,064,000	874,500
(Payments) on line of credit	(1,082,000)	(798,500)
Capital lease financing	-	7,434
Capital lease payments	(3,327)	-
Net cash (used) provided by financing activities	(21,327)	83,434
Net (decrease) increase in cash	(1,262)	711
Cash, beginning of year	5,778	5,067
CASH, END OF YEAR	$ 4,516	$ 5,778

See notes to financial statements.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES:

a. *Organization -*
Blackburne & Sons Realty Capital Corporation (formerly Blackburne & Brown Mortgage Company, Inc.) (the Company) was incorporated in 1980 in the state of California. The Company is engaged in the origination and servicing of real estate loans secured by deeds of trust throughout the United States.

b. *Principles of consolidation -*
The consolidated financial statements include the accounts of Blackburne & Sons Realty Capital Corporation and its affiliate, C-Loans, Incorporated. All material inter-company transactions have been eliminated in consolidation.

c. *Standards of reporting -*
The Company prepares its financial statements using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Loan servicing and origination revenue represents fees earned for servicing and originating mortgage loans. Servicing and origination revenue is recognized as earned, unless collection is doubtful.

d. *Use of estimates -*
In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates based on future events that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

e. *Financial instruments -*
The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values.

f. *Cash equivalents -*
The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

g. *Mortgage servicing rights, amortization and impairment -*
The Company recognizes as separate assets the rights to service mortgage loans for others based on their relative fair values. Amortization of mortgage servicing rights (MSRs) is based on the ratio of net servicing income received in the current period to total net servicing income projected to be realized from the MSRs. Projected net servicing income is in turn determined on the basis of the estimated future balance of the underlying mortgage loan portfolio, which declines over time from prepayments and scheduled loan amortization. The Company estimates future prepayment rates based on current interest rate levels, other economic conditions and market forecasts, as well as relevant characteristics of the servicing portfolio, such as loan types, interest rate stratification and recent prepayment experience. MSRs are periodically assessed for impairment, which is recognized in the statement of income during the period in which impairment occurs as an adjustment to the corresponding valuation

allowance. For purpose of performing its impairment evaluation, the Company analyzes its portfolio on the basis of certain risk characteristics including loan type and note rate.

h. *Property and equipment -*
Property and equipment are stated at cost. The policy of the Company is to provide for depreciation over the estimated useful lives of the assets using the straight line method. The estimated useful lives range from five to seven years. Maintenance and repairs are charged to expense when incurred. Expenditures for additions and improvements, where significant in amount, are capitalized.

i. *Income taxes -*
The Company accounts for income taxes under generally accepted accounting principles, which require recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities result from temporary differences in reporting for tax purposes and financial purposes.

The Company adopted accounting for uncertainty in income taxes and thereafter recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater that 50% likelihood of being realized upon ultimate settlement. There was no impact to the Company's financial statements as a result of the implementation of this principle.

The Company files tax returns in the United States federal jurisdiction and in the state of California. The Organization's federal income tax returns for the tax years 2015 and forward remain subject to examination by the Internal Revenue Service. The Company's California income tax returns for the years 2014 and forward remain subject to examination by the Franchise Tax Board.

j. *Advertising -*
The Company's policy is to expense advertising costs as they are incurred.

k. *Borrower and investor custodial accounts -*
Borrower and investor custodial accounts consists of trust fund cash accounts which are segregated from other corporate assets and maintained by the Company in accordance with Sections 2830 and 2834 of the Regulations of the California Real Estate Commissioner.

NOTE 2 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	2019	2018
Furniture and fixtures	$ 37,674	$ 37,674
Equipment	49,447	49,447
Computer equipment	19,028	19,028
Vehicles	51,005	51,005
Software	55,832	55,832
Total	212,986	212,986
Less: accumulated depreciation	196,627	191,735
Net property and equipment	$ 16,359	$ 21,251

NOTE 3 - INTANGIBLE ASSET:

Intangible asset consists of internet domain names with a cost of $127,500. Management reviews the intangible asset for impairment annually. Impairment losses are recorded in other expense on the income statement.

NOTE 4 - MORTGAGE SERVICING RIGHTS:

The activity in MSRs was as follows:

	2019	2018
Balance at beginning of period	$ 1,139,240	$ 1,419,147
Additions	878,748	509,432
Scheduled amortization & reduction due to early loan payoffs	(568,187)	(789,339)
Reserve for impairment	-	-
Mortgage servicing rights, net	$ 1,449,801	$ 1,139,240

The estimated fair value of recognized MSRs for the years ended September 30, 2019 and 2018 was $1,449,801 and $1,139,240, respectively. The fair value was determined by discounting estimated net future cash flows from mortgage servicing activities using appropriate discount and prepayment rates. The gross amount of expected future servicing revenue (net of related servicing costs) before applicable discounting for the years ending September 30, 2019 and 2018 was approximately $2,075,812 and $1,707,393, respectively.

NOTE 5 - LINE OF CREDIT:

The Company has a $150,000 available line of credit with First Northern Bank, which is due May 5, 2020. Interest is payable monthly at the bank's base commercial loan rate (5.5% at September 30, 2019) plus 1.25 percent. The line is secured by receivables and equipment of the Company.

NOTE 6 - SHAREHOLDER NOTE PAYABLE

The Company has an unsecured note payable in the amount of $173,073 and $160,048 at September 30, 2019 and 2018, respectively, to the principal officer and sole shareholder of the Company. The note was originally due on July 9, 2019, but the due date has been extended to July 9, 2020 with interest at 6%. The Company accrued $13,025 and $7,798 of interest expense for the years ended September 30, 2019 and 2018, respectively.

NOTE 7 - TRANSACTIONS WITH RELATED PARTY:

During the years ended September 30, 2019 and 2018, the Company received servicing revenue of $11,398 and $20,098, respectively, and collected management fees, including shared expenses, in the amount of $39,000 and $41,000, respectively from Blackburne & Brown Mortgage Fund I, a California limited partnership (the Fund). The Company is the general partner of the Fund. The Company's capital balance with the fund was $48,527 and $50,786 at September 30, 2019 and 2018, respectively, and is included on the balance sheet as Investment in Partnerships.

The Company has an ownership interest in Blackburne & Brown Mortgage Fund II (Fund II), a California limited partnership, and provides various management services to Fund II. The Company collected management fees in the amount of $10,500 and $15,500 for the years ended September 30, 2019 and 2018, respectively. Additionally, the Company received $28,436 and $28,622, respectively, in servicing revenue from Fund II for the years ended September 30, 2019 and 2018. The Company's capital balance with Fund II was $68,722 and $67,947 at September 30, 2019 and 2018, respectively, and is included on the balance sheet as Investment in Partnerships.

The Company has a profits and loss interest in Blackburne & Brown Equity Preservation Fund, LLC (LLC), manages the LLC and receives various fees for services performed. The Company received no management fees for the year ended September 30, 2019 and $16,080 in management fees for the year ended September 30, 2018 from the LLC.

NOTE 8 - INCOME TAX EXPENSE (BENEFIT):

The components of deferred tax liabilities (assets) at September 30, 2019 and 2018 are as follows:

	2019	2018
Mortgage servicing rights	$ 432,621	$ 339,949
Receivables	1,145	28,494
Depreciation and amortization	3,544	5,003
Accounts payable and accrued expenses	(30,255)	(21,961)
State taxes	(24,480)	(20,795)
Net operating loss	(14,263)	(19,765)
Net deferred tax liability	$ 368,312	$ 310,925

The provision for income tax expense (benefit) consists of the following components:

	2019	2018
Current		
Federal	$ 1,274	$ -
State	1,871	1,600
Total current	3,145	1,600
Deferred		
Federal	39,839	9,860
State	17,548	4,267
Total deferred	57,387	14,127
Total income tax expense (benefit)	$ 60,532	$ 15,727

Deferred income taxes are recognized for tax consequences of "temporary differences" by applying enacted statutory rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities. The tax effects of temporary differences that give rise to the deferred tax liability results from the use of accelerated methods of depreciation of property and equipment and the cash basis of accounting for tax purposes.

During the year ended September 30, 2018, the Company adopted ASU 2015-17 which relates to the balance sheet classification of deferred taxes. This change was applied retrospectively. Also, during the year ended September 30, 2018, the tax rate applied in determining deferred tax assets and liabilities changed as a result of federal tax rates changes. The change of the tax rate on deferred tax assets and liabilities is accounted for in income tax expense.

NOTE 9 - COMMITMENTS:

Operating Lease

The Company leases its main office space under an operating lease with monthly base payments of $3,151 expiring on December 31, 2020. Office rent expense was $31,774 and $34,456, respectively for the years ended September 30, 2019 and 2018.

The estimated minimum lease commitments for the succeeding years are as follows:

Year Ended September 30,		
2020	$	40,084
2021		10,209
Total	$	50,293

Capital Lease

During 2018, the Company entered into a capital lease agreement for the purchase of computer equipment. The lease began in January 2018 and requires 36 monthly payments of $248. The cost of the computer equipment is $8,921 and is included in the balance sheet as property and equipment. Accumulated amortization of the lease equipment was $5,471 and $2,104, respectively, at September 30, 2019 and 2018 and is included in depreciation expense.

The minimum lease payments required under the lease are as follows:

Year Ended September 30,		
2020	$	2,964
2021		1,143
Total	$	4,107

NOTE 10 - RETIREMENT PLAN:

On October 1, 1993, the Company established a profit sharing plan that covers substantially all employees. The Company may contribute to the plan an amount designated by the Board of Directors to the extent permissible under the Internal Revenue Code. The Company contributed $10,000 to the plan for each year ended September 30, 2019 and 2018.

On October 1, 2006, the Company adopted a 401(k) defined contribution plan. The plan covers all employees meeting certain eligibility requirements. The Company contributes an amount, (i.e. safe harbor contribution) determined by the Internal Revenue Code. For the years ended September 30, 2019 and 2018, the Company contributed $30,040 and $29,168, respectively, to the plan.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK:

The Company originates and services loans secured by real estate. The Company performs credit evaluations of the potential borrowers and, generally, requires no additional collateral from them.

NOTE 12 - CASH FLOWS:

For purposes of the statement of cash flows, interest paid by the Company was $7,034 and $3,148 for the years ended September 30, 2019 and 2018, respectively. Additionally, the Company paid $800 in income taxes for each year ended September 30, 2019 and 2018.

NOTE 13 - CONTINGENCIES:

The Company is involved in various lawsuits in the normal course of business. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would be covered under the Company's insurance policy and would not have a material effect on the financial position of the Company.

NOTE 14 – SUBSEQUENT EVENTS:

Management has evaluated the potential for subsequent events through the available for issuance date of the financial statements, December 21, 2019.