BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Financial Statements
September 30, 2016 and 2015

Table of Contents

BODEN
KLEIN &
SNEESBY
CERTIFIED PUBLIC ACCOUNTANTS
3005 Douglas Blvd., Ste. 115
Roseville, CA 95661
(916) 774-1040
(916) 774-1177 Fax

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, 2016 and 2015, 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 on 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackburne & Sons Realty Capital Corporation and Affiliate as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Boden Klein & Sneesby

BODEN KLEIN & SNEESBY
Certified Public Accountants
Roseville, California

December 21, 2016

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
For the Years Ended September 30, 2016 and 2015

ASSETS

	2016	2015
Current assets:		
Cash	$ 6,321	$ 4,146
Mortgage servicing rights	726,573	623,235
Prepaid expenses	10,284	37,634
Prepaid income taxes	140	-
Other receivables	26,995	32,404
Total current assets	770,313	697,419
Property and equipment, net	11,999	14,130
Other assets:		
Investment in partnerships	63,541	65,148
Intangible asset, net	91,152	91,152
Other receivables - net of current portion	-	26,800
Mortgage servicing rights - net of current portion	728,563	767,486
Total other assets	883,256	950,586
TOTAL ASSETS	$ 1,665,568	$ 1,662,135
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 1,304,882	$ 964,672

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
For the Years Ended September 30, 2016 and 2015

LIABILITIES AND STOCKHOLDERS' EQUITY

	2016	2015
Current liabilities:		
Other payable	$ 64	$ 108
Accrued expenses	84,091	74,766
Income taxes payable	7,077	5,740
Deferred income taxes	147,583	133,325
Line of credit	82,500	57,500
Total current liabilities	321,315	271,439
Non-current liabilities:		
Deferred income taxes - net of current portion	169,207	185,269
Total liabilities	490,522	456,708
Stockholders' equity:		
Common stock - no par value, authorized, issued and outstanding, 100 shares	312	312
Additional paid-in capital	100	100
Retained earnings	1,174,634	1,205,015
Total stockholders' equity	1,175,046	1,205,427
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,665,568	$ 1,662,135
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 1,304,882	$ 964,672

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues:		
Servicing fees	$ 929,643	$ 817,440
Loan commissions	766,303	856,631
Fund management fees	164,630	58,000
Software licensing fees	118,582	247,098
Property management fees	103,126	88,898
Amortization of mortgage servicing rights	64,414	363,702
Video and manual sales	18,540	34,898
Total revenue	2,165,238	2,466,667
Expenses:		
Salaries	875,825	859,462
Salaries - George Blackburne	297,047	291,728
Salaries - Francisca Blackburne	53,328	53,328
Outside consultants	196,306	131,508
Marketing	123,211	134,664
Other expenses	90,744	65,337
Payroll taxes	86,982	83,772
Retirement plan contributions	82,725	84,996
Employee benefits	80,381	72,209
Legal	58,404	53,042
Insurance	44,648	37,267
Office expense	44,371	36,707
Office rent	36,505	33,252
Tax and license	31,379	28,769
Telephone and utilities	20,677	21,478
Accounting	19,974	12,510
Automobile	19,973	5,157
Maintenance and repairs	16,135	8,294
Loan arrangement fees	15,594	16,710
Depreciation	12,801	11,926
Travel	11,265	7,383
Education	4,826	2,734
Equipment lease	2,280	3,668
Total expenses	2,225,381	2,055,901
(Loss) income from operations	(60,143)	410,766

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2016 and 2015

	2016	2015
(Loss) income from operations (continued)	$ (60,143)	$ 410,766
Other income (expense):		
Interest expense	(2,251)	(5,994)
Income (loss) from partnerships	(1,607)	166
Other fees and income	32,950	47,128
Total other income (expense)	29,092	41,300
(Loss) income before income taxes	(31,051)	452,066
Income tax (benefit) expense	(670)	99,292
NET (LOSS) INCOME	(30,381)	352,774
Retained earnings, beginning of year	1,205,015	852,241
RETAINED EARNINGS, END OF YEAR	$ 1,174,634	$ 1,205,015

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net (loss) income	$ (30,381)	$ 352,774
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation	12,801	11,926
Amortization & impairment of mortgage servicing rights	865,951	730,222
Additions to mortgage servicing rights	(930,366)	(1,093,924)
Loss (income) from partnerships	1,607	(166)
Deferred income taxes	(1,804)	94,154
Changes in operating assets and liabilities:		
Prepaid expenses	27,350	(30,885)
Prepaid income taxes	(140)	2,950
Other receivables	32,209	(21,853)
Accounts payable	-	(28,069)
Other payable	(44)	(750)
Accrued expenses	9,325	49,401
Income taxes payable	1,337	605
Net cash (used) provided by operating activities	(12,155)	66,385
Cash flows from investing activities:		
Purchase of property and equipment	(10,670)	-
Cash flows from financing activities:		
Advances on line of credit	692,500	(9,500)
(Payments) on line of credit	(667,500)	
(Principal payments) on notes payable	-	(59,402)
Net cash provided (used) in financing activities	25,000	(68,902)
Net increase (decrease) in cash	2,175	(2,517)
Cash, beginning of year	4,146	6,663
CASH, END OF YEAR	$ 6,321	$ 4,146

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. Deferred tax assets and liabilities are identified separately as current or noncurrent based on the classification of the related asset or liability. A deferred tax asset or liability not associated with an asset or liability for financial reporting purposes is classified as current or noncurrent according to the expected reversal date of the temporary difference.

The Company adopted accounting for uncertainty in income taxes as of October 1, 2010 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 2012 and forward remain subject to examination by the Internal Revenue Service. The Company's California income tax returns for the years 2011 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:

	2016	2015
Furniture and fixtures	$ 37,674	$ 37,674
Equipment	38,924	44,279
Computer equipment	19,028	19,028
Vehicles	51,005	51,005
Software	55,832	55,832
Total	202,463	207,818
Less: accumulated depreciation	190,464	193,688
Net property and equipment	$ 11,999	$ 14,130

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:

	2016	2015
Balance at beginning of period	$ 1,390,721	$ 1,027,019
Additions	930,366	1,093,924
Scheduled amortization & reduction due to early loan payoffs	(865,951)	(730,222)
Reserve for impairment	-	-
Mortgage servicing rights, net	$ 1,455,136	$ 1,390,721

The estimated fair value of recognized MSRs for the years ended September 30, 2016 and 2015 was $1,455,136 and $1,390, 721, 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, 2016 and 2015 was approximately $2,072,760 and $2,045,000, 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, 2017. Interest is payable monthly at the bank's base commercial loan rate (5.00% at September 30, 2016) plus 1.25 percent. The line is secured by receivables and equipment of the Company.

NOTE 6 - TRANSACTIONS WITH RELATED PARTY:

During the years ended September 30, 2016 and 2015, the Company received servicing revenue of $73,184 and $100,611, respectively, and collected management fees, including shared expenses, in the amount of $47,000 and $58,000, respectively from Blackburne & Brown Mortgage Fund I (the Fund). The Fund is a California limited partnership, whose general partner is the Company. The Company's capital balance with the fund was $57,234 and $58,925 at September 30, 2016 and 2015, 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 $7,470 for the year ended September 30, 2016. No management fees were paid to the Company for these services for the year ended September 30, 2015.

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 years ended September 30, 2016 and 2015 from the LLC. The Company did receive a syndication fee in the amount of $110,160 for the year ended September 30, 2016.

NOTE 7 - INCOME TAX EXPENSE (BENEFIT):

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

	2016	2015
Current		
Federal	$ 658	$ 3,224
State	476	1,914
Total current	1,134	5,138
Deferred		
Federal	(1,096)	57,185
State	(708)	36,969
Total deferred	(1,804)	94,154
Total income tax (benefit) expense	$ (670)	$ 99,292

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.

NOTE 8 - COMMITMENTS:

The Company leases its main office space under an operating lease with monthly base payments of $2,788 expiring on December 31, 2020. Additionally the Company leases office space in Indiana under a month to month lease from the Company's sole shareholder, with monthly payments of $1,200. Office rent expense was $47,505 and $45,252, respectively for the years ended September 30, 2016 and 2015.

The Company subleases a portion of its Indiana office to unaffiliated parties. Sublease income was $11,000 and $12,000 for the years ended September 30, 2016 and 2015, respectively. Sublease income is netted with office rent expense in the income statement.

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

Year Ended September 30,	
2017	$ 33,456
2018	34,456
2019	37,059
2020	40,084
Total	$ 145,055

NOTE 9 - 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 $50,000 to the plan for each year ended September 30, 2016 and 2015.

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, 2016 and 2015, the Company contributed $32,685 and $33,252, respectively, to the plan.

NOTE 10 - 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 11 - CASH FLOWS:

For purposes of the statement of cash flows, interest paid by the Company was $2,251 and $5,994 for the years ended September 30, 2016 and 2015, respectively.

Additionally, the Company paid $8,639 and $8,241 in income taxes for the years ended September 30, 2016 and 2015, respectively.

NOTE 12 - 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 13 – SUBSEQUENT EVENTS:

Management has evaluated the potential for subsequent events through the available for issuance date of the financial statements, December 21, 2016.