BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 19, 2017

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
September 30, 2017 and 2016

ASSETS

	2017	2016
Current assets:		
Cash	$ 5,067	$ 6,321
Mortgage servicing rights	729,324	726,573
Prepaid expenses	5,958	10,284
Prepaid income taxes	3,667	140
Other receivables	14,962	26,995
Total current assets	758,978	770,313
Property and equipment, net	15,652	11,999
Other assets:		
Investment in partnerships	103,388	63,541
Intangible asset, net	74,152	91,152
Mortgage servicing rights - net of current portion	689,823	728,563
Total other assets	867,363	883,256
TOTAL ASSETS	$ 1,641,993	$ 1,665,568
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 1,894,368	$ 1,304,882

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
September 30, 2017 and 2016

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2016
Current liabilities:		
Accounts payable	$ 73,721	$ -
Other payable	-	64
Accrued expenses	32,015	84,091
Income taxes payable	-	7,077
Deferred income taxes	127,591	147,583
Shareholder note payable	152,250	-
Line of credit	-	82,500
Total current liabilities	385,577	321,315
Non-current liabilities:		
Deferred income taxes - net of current portion	169,207	169,207
Total liabilities	554,784	490,522
Stockholders' equity:		
Common stock - no par value, authorized, issued and outstanding, 100 shares	312	312
Additional paid-in capital	100	100
Retained earnings	1,086,797	1,174,634
Total stockholders' equity	1,087,209	1,175,046
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,641,993	$ 1,665,568
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 1,894,368	$ 1,304,882

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2017 and 2016

	2017	2016
Revenues:		
Servicing fees	$ 991,216	$ 929,643
Loan commissions	529,658	766,303
Property management fees	115,818	103,126
Software licensing fees	106,661	118,582
Fund management fees	56,320	164,630
Video and manual sales	36,091	18,540
Amortization of mortgage servicing rights	(35,989)	64,414
Total revenue	1,799,775	2,165,238
Expenses:		
Salaries	776,923	875,825
Salaries - George Blackburne	250,488	297,047
Salaries - Francisca Blackburne	53,328	53,328
Marketing	117,083	123,211
Other expenses	93,121	90,744
Outside consultants	90,303	196,306
Payroll taxes	75,730	86,982
Employee benefits	73,893	80,381
Legal	55,287	58,404
Insurance	48,957	44,648
Retirement plan contributions	42,064	82,725
Office rent	38,256	36,505
Tax and license	35,836	31,379
Office expense	29,530	44,371
Telephone and utilities	22,338	20,677
Accounting	17,969	19,974
Automobile	17,917	19,973
Loan arrangement fees	15,096	15,594
Maintenance and repairs	14,295	16,135
Depreciation	13,347	12,801
Travel	12,883	11,265
Education	6,980	4,826
Unrecovered costs	4,838	-
Equipment lease	3,556	2,280
Total expenses	1,910,018	2,225,381
(Loss) from operations	(110,243)	(60,143)

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2017 and 2016

	2017	2016
(Loss) from operations (continued)	$ (110,243)	$ (60,143)
Other income (expense):		
Interest expense	(8,493)	(2,251)
(Loss) from partnerships	(4,688)	(1,607)
Other fees and income	20,043	32,950
Total other income (expense)	6,862	29,092
(Loss) before income taxes	(103,381)	(31,051)
Income tax (benefit)	(15,544)	(670)
NET (LOSS)	(87,837)	(30,381)
Retained earnings, beginning of year	1,174,634	1,205,015
RETAINED EARNINGS, END OF YEAR	$ 1,086,797	$ 1,174,634

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net (loss)	$ (87,837)	$ (30,381)
Adjustments to reconcile net (loss) to net cash (used) in operating activities:		
Depreciation	13,347	12,801
Amortization & impairment of mortgage servicing rights	814,226	865,951
Additions to mortgage servicing rights	(778,237)	(930,366)
Loss from partnerships	4,688	1,607
Deferred income taxes	(19,992)	(1,804)
Changes in operating assets and liabilities:		
Prepaid expenses	4,327	27,350
Prepaid income taxes	(3,527)	(140)
Other receivables	12,033	32,209
Accounts payable	73,721	-
Other payable	(64)	(44)
Accrued expenses	(52,076)	9,325
Income taxes payable	(7,077)	1,337
Net cash (used) in operating activities	(26,468)	(12,155)
Cash flows from investing activities:		
Investment in partnership	(44,536)	-
Purchase of property and equipment	-	(10,670)
Net cash (used) in investing activities	(44,536)	(10,670)
Cash flows from financing activities:		
Advances on line of credit	760,500	692,500
(Payments) on line of credit	(843,000)	(667,500)
Proceeds from note payable	152,250	-
Net cash provided by financing activities	69,750	25,000
Net (decrease) increase in cash	(1,254)	2,175
Cash, beginning of year	6,321	4,146
CASH, END OF YEAR	$ 5,067	$ 6,321

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 2013 and forward remain subject to examination by the Internal Revenue Service. The Company's California income tax returns for the years 2012 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:

	2017	2016
Furniture and fixtures	$ 37,674	$ 37,674
Equipment	38,924	38,924
Computer equipment	19,028	19,028
Vehicles	51,005	51,005
Software	55,832	55,832
Total	202,463	202,463
Less: accumulated depreciation	186,811	190,464
Net property and equipment	$ 15,652	$ 11,999

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:

	2017	2016
Balance at beginning of period	$ 1,455,136	$ 1,390,721
Additions	778,237	930,366
Scheduled amortization & reduction due to early loan payoffs	(814,226)	(865,951)
Reserve for impairment	-	-
Mortgage servicing rights, net	$ 1,419,147	$ 1,455,136

The estimated fair value of recognized MSRs for the years ended September 30, 2017 and 2016 was $1,419,147 and $1,455,136, 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, 2017 and 2016 was approximately $2,015,424 and $2,072,760, 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, 2018. Interest is payable monthly at the bank's base commercial loan rate (5.50% at September 30, 2017) 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 $150,000 to the principal officer and sole shareholder of the Company. The note is due on July 9, 2018 with interest at 6%. The Company accrued $2,250 of interest expense for the year ended September 30, 2017.

NOTE 7 - TRANSACTIONS WITH RELATED PARTY:

During the years ended September 30, 2017 and 2016, the Company received servicing revenue of $38,828 and $73,184, respectively, and collected management fees, including shared expenses, in the amount of $45,000 and $47,000, 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 $51,185 and $57,234 at September 30, 2017 and 2016, 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 $11,320 and $7,470 for the years ended September 30, 2017 and 2016, respectively.

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, 2017 and 2016 from the LLC. The Company did receive a syndication fee in the amount of $110,160 for the year ended September 30, 2016.

NOTE 8 - INCOME TAX EXPENSE (BENEFIT):

The components of deferred tax liabilities (assets) at September 30, 2017 and 2016 are as follows:

	2017	2016
Mortgage servicing rights	$ 338,324	$ 346,904
Receivables	1,995	1,154
Depreciation and amortization	2,664	1,275
Accounts payable and accrued expenses	(20,262)	(8,128)
State taxes	(17,481)	(18,658)
Net operating loss	(8,442)	(5,757)
Net deferred tax liability	$ 296,798	$ 316,790

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

	2017	2016
Current		
Federal	$ 2,848	$ 658
State	1,600	476
Total current	4,448	1,134
Deferred		
Federal	(12,142)	(1,096)
State	(7,850)	(708)
Total deferred	(19,992)	(1,804)
Total income tax (benefit) expense	$ (15,544)	$ (670)

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 9 - 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, during 2016, the Company leased office space in Indiana under a month to month lease from the Company's sole shareholder, with monthly payments of $1,200. During 2017, the Company terminated is lease for the Indiana office. Office rent expense was $38,256 and $47,505, respectively for the years ended September 30, 2017 and 2016.

In 2016, the Company sublet a portion of its Indiana office to unaffiliated parties. Sublease income was $11,000 for the year ended September 30, 2016. 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,	
2018	$ 34,456
2019	37,059
2020	40,084
Total	$ 111,599

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 and $50,000 to the plan for years ended September 30, 2017 and 2016.

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, 2017 and 2016, the Company contributed $30,169 and $32,685, 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 $6,243 and $2,251 for the years ended September 30, 2017 and 2016, respectively.

Additionally, the Company paid $15,130 and $8,639 in income taxes for the years ended September 30, 2017 and 2016, respectively.

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 19, 2017.