PRIVATE PLACEMENT MEMORANDUM

ACCREDITED INVESTORS ONLY

BLACKBURNE & BROWN MORTGAGE FUND II, L.P.

Up to $5,000,000 Limited Partnership Interest Units ("Units") at $100 per Unit[1]
Minimum Investment: $2,000 (20 Units)[2]

Blackburne & Brown Mortgage Fund II, L.P. a California limited partnership (the "**Fund**"), is a California limited partnership, whose sole general partner is Blackburne & Sons Realty Capital Corporation, a California corporation (the "**General Partner**" or "**Blackburne**"). The Fund has been organized for the purpose of making loans secured by deeds of trust encumbering real property located inside and outside of California, including non-owner occupied residential, commercial, multi-family, mixed use and unimproved properties. Fund loans will be made for business purposes, only, and may include constructions loans and cannabis loans which involve a higher degree of risk. (See "Fund Business and Lending – Lending Standards and Policies" and "Risk Factors.") The Fund commenced business in February of 2008 and as of July 31, 2018 had sold approximately 32,348 Units and had a total capitalization of approximately $3,234,801 (See "Operations to Date.") The General Partner is a real estate broker licensed by the California Department of Real Estate and will arrange and service loans on behalf of the Fund. (See "The General Partner and its Affiliates.")

Investors purchasing Units will become non-managing limited partners in the Fund ("**Limited Partners**") governed by the terms and conditions of the Limited Partnership Agreement dated December 14, 2000, a copy of which is attached hereto as Exhibit A (the "**Limited Partnership Agreement**"). An investment in the Fund is not liquid and is subject to substantial restrictions on transfer and withdrawal. (See "Terms of the Offering – Restrictions on Transfer" and "Summary of the Limited Partnership Agreement – Withdrawal from Fund.") Investors should not purchase Units unless they are in a position to hold the Units for an indefinite amount of time. This offering also involves certain ERISA risks that should be considered by tax-exempt employee benefit plans. (See "Tax Considerations" and "ERISA Considerations.")

Investors have the option, exercisable upon subscription for Units, to receive monthly distributions of their share of income from Fund operations, or to allow their proportionate share of Fund income to compound and be reinvested by the Fund for their accounts. (See "Terms of the Offering – Election to Receive Monthly Cash Distributions"). All Fund income will be taxed to the Limited Partners (other than tax-exempt entities) as ordinary income, regardless of whether it is distributed in cash or reinvested. (See "Federal Income Tax Consequences").

THIS OFFERING INVOLVES SIGNIFICANT RISKS, DESCRIBED IN DETAIL IN THIS MEMORANDUM . See "Risk Factors" beginning on page 17 for certain factors investors should consider before buying Units. Significant risks include the following: (i) the Fund is a "blind pool" because the General Partner has not yet identified specific loans to be made or acquired by the Fund with the proceeds of the sale of new Units or with principal repayments received by the Fund and reinvested in loan investments selected by the General Partner; (ii) loans invested in by the Fund will not be insured by any government agency, instrumentality or entity; (iii) investment in Units is subject to substantial withdrawal restrictions and investors will have a limited ability to liquidate their investment in the Fund; (iv) the transfer of Units is restricted and no public market for Units exists or is likely to develop; (v) the General Partner is entitled to various forms of compensation and is subject to certain conflicts of interest; (vi) Investor Limited Partners will have no right to participate in the management of the Fund and will have only limited voting rights; and (vii) Fund loans may include construction loans and cannabis related loans which involve additional risks of loss to the Fund.

	Price to Investors	Selling Commissions[3]	Net Proceeds to the Fund[4]
Per Unit	$100.00	$0.00	$100.00
Total Maximum	$5,000,000.00	$0.00	$5,000,000.00

(Footnotes on next page)

General Partner:
BLACKBURNE & SONS REALTY CAPITAL CORPORATION
4811 Chippendale Drive, Suite 101
Sacramento, California 95841
(916) 338-3232 • www.blackburneandsons.com

The date of this Memorandum is July 31, 2018

THESE UNITS ARE BEING OFFERED SOLELY TO ACCREDITED INVESTORS TO WHOM A COPY OF THIS MEMORANDUM HAS BEEN PERSONALLY DELIVERED BY THE GENERAL PARTNER. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY WITH RESPECT TO ANY OTHER PERSON.

THE UNITS OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") OR BY ANY STATE SECURITIES REGULATORY AUTHORITY OR OTHER JURISDICTION, NOR HAS ANY SUCH AUTHORITY OR COMMISSION PASSED ON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE UNITS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR THE LAWS OF ANY FOREIGN JURISDICTION. THE INTERESTS WILL BE OFFERED AND SOLD UNDER THE EXEMPTION PROVIDED BY SECTION 4(a)(2) OF THE SECURITIES ACT AND REGULATION D PROMULGATED THEREUNDER AND OTHER EXEMPTIONS OF SIMILAR IMPORT UNDER THE LAWS OF THE UNITED STATES AND OTHER JURISDICTIONS WHERE THE OFFERING WILL BE MADE. CONSEQUENTLY: (I) THE FUND IS NOT REQUIRED TO COMPLY WITH SPECIFIC DISCLOSURE REQUIREMENTS THAT APPLY TO OFFERINGS REGISTERED UNDER THE SECURITIES ACT; (II) THE COMMISSION HAS NOT PASSED UPON THE MERITS OF OR GIVEN ITS APPROVAL TO THE UNITS THE TERMS OF THE OFFERING, OR THE ACCURACY OR COMPLETENESS OF THIS MEMORANDUM OR ANY OTHER OFFERING MATERIALS; (III) INTERESTS ARE SUBJECT TO SUBSTANTIAL LEGAL RESTRICTIONS ON TRANSFER AND RESALE AND INVESTORS SHOULD NOT ASSUME THEY WILL BE ABLE TO RESELL THEIR SECURITIES. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

ANY PERFORMANCE DATA UTILIZED IN CONNECTION WITH THE OFFERING OF UNITS REPRESENTS PAST PERFORMANCE FOR THE STATED PERIOD, ONLY, AND DOES NOT GUARANTY FUTURE RESULTS. THE FUND IS NOT REQUIRED BY LAW TO FOLLOW ANY STANDARD METHODOLOGY WHEN CALCULATING AND REPRESENTING PERFORMANCE DATA AND THE PERFORMANCE OF THE FUND MAY NOT BE DIRECTLY COMPARABLE TO THE PERFORMANCE OF OTHER PRIVATE OR REGISTERED FUNDS. CURRENT PERFORMANCE MAY BE LOWER OR HIGHER THAN THE PERFORMANCE DATA PRESENTED FOR EARLIER PERIODS. INVESTORS MAY OBTAIN CURRENT PERFORMANCE DATA BY CONTACTING THE GENERAL PARTNER AT THE CONTACT INFORMATION PROVIDED HEREIN.

THE UNITS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT, ANY APPLICABLE STATE SECURITIES LAWS AND THE LAWS OF ANY OTHER RELEVANT JURISDICTION. IN ADDITION, SUCH INTERESTS MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED, IN WHOLE OR IN PART, EXCEPT AS PROVIDED IN THE LIMITED PARTNERSHIP AGREEMENT REFERRED TO HEREIN. ACCORDINGLY, INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE UNITS FOR AN INDEFINITE PERIOD OF TIME. THERE WILL BE NO PUBLIC MARKET FOR THE UNITS, AND THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER THE INTERESTS UNDER THE SECURITIES ACT, ANY STATE SECURITIES LAWS OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. INVESTMENT IN UNITS INVOLVES CERTAIN SIGNIFICANT INVESTMENT RISKS, INCLUDING RISKS OF LOSS OF CAPITAL OR AN INVESTOR'S ENTIRE INVESTMENT IN UNITS.

THE FUND WILL NOT BE REGISTERED AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940 (THE "INVESTMENT COMPANY ACT"). CONSEQUENTLY, INVESTORS WILL NOT BE AFFORDED THE PROTECTIONS OF THE INVESTMENT COMPANY ACT. THE GENERAL PARTNER OF THE FUND IS NOT REGISTERED AS AN INVESTMENT ADVISOR WITH THE SEC OR REGISTERED OR CERTIFIED AS AN INVESTMENT ADVISOR UNDER THE LAWS OF ANY STATE OR OTHER JURISDICTION AND POTENTIAL INVESTORS

SHOULD CONSULT WITH THEIR OWN INDEPENDENT SECURITIES PROFESSIONALS TO DETERMINE THE SUITABILITY OF UNITS AND THE LOAN INVESTMENTS MADE BY THE FUND FOR THEIR OWN PERSONAL FINANCIAL SITUATION AND INVESTMENT OBJECTIVES.

THE INFORMATION CONTAINED IN THIS MEMORANDUM SUPERSEDES ANY ADVERTISEMENTS OR SOLICITATION MATERIALS REGARDING THE FUND OR THIS OFFERING. THIS MEMORANDUM IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE LIMITED PARTNERSHIP AGREEMENT OF THE FUND AND THE SUBSCRIPTION AGREEMENT RELATED THERETO. NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN AS CONTAINED IN THIS MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND OR THE GENERAL PARTNER. STATEMENTS IN THIS MEMORANDUM ARE MADE AS OF THE DATE HEREOF UNLESS STATED OTHERWISE HEREIN, AND NEITHER THE DELIVERY OF THIS MEMORANDUM AT ANY TIME, NOR ANY SALE HEREUNDER, SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO SUCH DATE.

COMPENSATION WILL BE PAID TO THE GENERAL PARTNER, WHICH HAVE NOT BEEN DETERMINED BY ARM'S-LENGTH NEGOTIATION. THE GENERAL PARTNER IS ALSO SUBJECT TO CERTAIN CONFLICTS OF INTEREST. (SEE "RISK FACTORS," "COMPENSATION TO GENERAL PARTNER AND ITS AFFILIATES" AND "CONFLICTS OF INTEREST.")

PROSPECTIVE PURCHASERS SHOULD NOT REGARD THE CONTENTS OF THIS MEMORANDUM OR ANY OTHER COMMUNICATION FROM THE FUND AS A SUBSTITUTE FOR CAREFUL AND INDEPENDENT TAX AND FINANCIAL PLANNING. EACH POTENTIAL INVESTOR IS ENCOURAGED TO CONSULT WITH HIS OR HER OWN INDEPENDENT LEGAL COUNSEL, ACCOUNTANT AND OTHER PROFESSIONAL WITH RESPECT TO THE LEGAL AND TAX ASPECTS OF THIS INVESTMENT AND WITH SPECIFIC REFERENCE TO HIS OR HER OWN TAX SITUATION, PRIOR TO SUBSCRIBING TO UNITS.

[1] The $5,000,000 maximum amount of this offering may be increased by the General Partner at any time.

[2] The minimum purchase is $2,000 (20 Units).

[3] Units will be offered and sold by the General Partner or by his duly authorized agents and employees. The General Partner, in its sole discretion, may arrange for Units also to be sold through registered securities broker-dealers. Any such agents, employees or broker-dealers will be paid selling commissions to be negotiated on a case-by-case basis. These selling commissions will be paid by the General Partner, and shall not be an expense of the Fund, but no such sales have occurred to date. (See "Plan of Distribution.") There is no firm commitment from any third party to purchase or sell any of the Units.

[4] "Net Proceeds to the Fund" are calculated before deducting ongoing offering expenses, including without limitation legal and accounting expenses, reproduction costs, selling expenses and filing fees paid to the California Department of Corporations. (See "Use of Proceeds.")

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EXHIBITS

SUMMARY OF THE OFFERING

The following information is only a brief summary of the offering, and is qualified in its entirety by, the detailed information appearing elsewhere in this Memorandum. Potential investors should review this entire Memorandum prior to making a decision to invest in Units.

Fund Objectives.....	Blackburne & Brown Mortgage Fund II, L.P. is a California limited partnership formed for the purpose of making or investing in loans secured by first and second deeds of trust on real property. The Units offered hereby represent limited partnership interests in the Fund. The Fund's objectives are to (1) provide the opportunity for the Limited Partners to earn income from interest paid by borrowers on Fund loans; (2) protect and preserve Fund capital; and (3) provide cash distributions to electing members. There is no guaranty that each of these objectives will be met. (See "Risk Factors.")
The General Partner, Mortgage Broker and Servicing Agent.....	Blackburne & Sons Realty Capital Corporation, 4811 Chippendale Drive, Suite 101, Sacramento, California 95841.
Suitability Standards.....	Interests will be sold exclusively to "accredited investors," with an initial minimum investment of $2,000. Qualified investors admitted to the Fund will become Limited Partners. (See "Investor Suitability Standards.")
Capitalization.....	Maximum of $5,000,000 (subject to increase by the General Partner).
Mortgage Loan Portfolio	Fund loans will be made to borrowers for business purposes only and secured by either (i) real estate consisting of non-owner occupied residential properties, apartment buildings, office buildings, commercial and industrial properties, unimproved land; and/or (ii) secured promissory notes that are, in turn, secured by such real properties. Fund loans may include construction and rehabilitation loans made to fund the construction or rehabilitation of the property securing the loan and, potentially, cannabis related loans where the borrower and or the security property is involved in some aspect of the legalized Cannabis industry in California and potentially other states. (See "Fund Business and Lending - Lending Standards and Policies.") Construction and Rehabilitations loans will generally be underwritten based upon the "as completed" or "as rehabilitated" value of the security property and involve additional risk. Cannabis related loans will be subject to the increased risks associated with financing a newly legalized industry and the continued illegality of cannabis at the federal level. (See "Business and Lending - Lending Standards and Policies" and "Risk Factors – Risks Related to Cannabis Related Loans.") Loans will be selected exclusively by the General Partner and made while this offering is continuing.
Compensation to the General Partner and Affiliates.....	The General Partner will receive substantial fees and other compensation. (See "Compensation to General Partner and

	Affiliates.")
General Partner's Experience	The General Partner has substantial prior experience in the mortgage lending business. (See "The General Partner and its Affiliates.")
Term of the Fund	Until December 31, 2030, unless sooner terminated. (See "Summary of Limited Partnership Agreement.")
Cash Distributions	Choice of (1) regular monthly cash distributions of Fund income, or (2) income credited to capital accounts. This election, once made upon subscription for Units, is irrevocable by the investor; however, the General Partner, at his sole and absolute discretion, reserves the right to commence making cash distributions at any time to previously compounding ERISA investors in order for the Fund to remain exempt from the ERISA plan asset regulations. (See "ERISA Considerations" and "Summary of Limited Partnership Agreement.")
Withdrawal	Investors have no right to demand withdrawal of all or a portion of their investment for twelve (12) months following the date of the purchase of Units. Thereafter, withdrawals from the Fund will be subject to cash flow limitations and other withdrawal restrictions. The Fund may utilize money from new subscriptions to fund withdrawals. (See "Summary of Limited Partnership Agreement – Withdrawal from Fund" and "Risk Factors – Risks Related to Ownership of Units.")
Restrictions on Transfers	There are substantial restrictions on transferability of Units under federal and state securities laws and under the Limited Partnership Agreement. (See "Terms of Offering – Restrictions on Transfer" and "Risk Factors – Risks Related to Ownership of Units.")
Liquidity	The purchase of Units is an illiquid investment. There is no public market for Units and none is expected to develop in the foreseeable future and an investor's withdrawal of invested capital is limited by Fund cash flow and other restrictions. (See "Risk Factors – Risks Related to Ownership of Units" and "Summary of the Limited Partnership Agreement – Withdrawal Limitation.")
Reports to Limited Partners	Annual reports including audited financial statements, and monthly statements of account.
Risks	An investment in Units is subject to certain risks which should be carefully evaluated before an investment in Units is made. (See "Risk Factors."
Conflicts of Interest	The Fund's business operations will be managed entirely by the General Partner, which is subject to certain conflicts of interest. (See "Conflicts of Interest.")

Voting.....	Limited Partners will have no right to vote on matters concerning the Fund except as expressly granted in the Limited Partnership Agreement or required by law. All voting rights granted to Limited Partners in the Limited Partnership Agreement require the affirmative vote of Limited Partners representing a majority of the total outstanding Units. (See "Risk Factors – Risks Related to Ownership of Units.")
Subscription Agreement Warranties and Verification	To purchase Units, an investor must complete and execute the Subscription Agreement attached to this Memorandum. The Subscription Agreement requires each potential investor to make warranties to ensure that investor fully understands the terms of the offering, the risks of an investment in Units and that investor is qualified and has the capacity to subscribe. The Manager will rely upon these warranties in accepting an investor's subscription and in certain claims or actions against the Fund or the Manager, the Fund or the Manager may use these warranties as a defense or the basis for seeking indemnity from an Investor. (See "Terms of the Offering – Subscription for Units and Admission to the Fund.")

FORWARD-LOOKING STATEMENTS

This Memorandum contains forward-looking statements within the meaning of federal securities law. Words such as "may," "will," "expect," "anticipate," "believe," "estimate," "continue," "predict," or other similar words, identify forward-looking statements. Forward-looking statements include statements regarding the General Partner's intent, belief or current expectation about, among other things, trends affecting the markets in which the Fund will operate, its business, financial condition and strategies. Although the Fund believes that the expectations reflected in these forward looking statements are based on reasonable assumptions, forward looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those predicted in the forward-looking statements as a result of various factors, including those set forth in the "Risk Factors" section of this Memorandum . If any of the events described in "Risk Factors" occur, they could have an adverse effect on the Fund's business, financial condition and results of operations. When considering forward looking statements, prospective investors should keep these Risk Factors in mind as well as the other cautionary statements in this Memorandum . Prospective investors should not place undue reliance on any forward looking statement. The Fund is not obligated to update forward looking statements.

INVESTOR SUITABILITY STANDARDS

Interests are being offered and sold in reliance upon the exemption from federal registration provided for under section 4(a)(2) of the Securities Act of 1933 (the "**Act**") and Rule 506(c) of Regulation D issued by the Securities and Exchange Commission, thereunder ("**Regulation D**") relating to certain limited or private offerings. As such, Interests will be sold only to "accredited investors," as such term is defined in Regulation D ("**Accredited Investors**"). All Accredited Investors must be of substantial means with no need for liquidity with regard to this investment and must meet certain eligibility and suitability standards, some of which are set forth below. Each investor must execute a Subscription Agreement in the form attached hereto as Exhibit B. By executing the Subscription Agreement, an Investor makes certain representations and warranties, upon which the General Partner will rely in accepting subscriptions. Read the Subscription Agreement carefully.

Individual Investors will also be required to provide additional documentation upon which the General Partner can verify such Investor's status as an Accredited Investor. Non-individual investors may also be required to provide verification documentation to the extent such documentation is deemed necessary by the General Partners to comply with the Act, Regulation D, or any other state or federal securities laws applicable to this offering. Existing Limited Partners desiring to purchase additional Interests in the Fund must meet the suitability standards outlined herein at the time each additional purchase of Interests is made.

Accredited Investor Standards

Accredited Investors include individuals and entities who meet the requirements set forth in Rule 501(e) of Regulation D, including those set forth below.

Individuals

Each Accredited Investor that is an individual must meet one of the following tests:

(1) Income Test. The investor is an individual: (i) whose individual income exceeded $200,000 in each of the two most recent calendar years, and who has a reasonable expectation of reaching the same income level in the current calendar year; or (ii) An individual whose joint income with his/her spouse exceeded $300,000 in each of the two most recent calendar years, and who has a reasonable expectation of reaching the same income level in the current year (the "**Income Test**").

(2) An individual whose individual net worth, or whose joint net worth with such individual's spouse, at the time of purchase exceeds $1,000,000 (exclusive of the value of the individual's primary residence)[1] (the "**Net Worth Test**").

Entities, Trusts, Etc.

An entity (such as a trust, partnership or corporation) will be an Accredited Investor if it was not formed for the specific purpose of purchasing Interests and it is one of the following:

(1) Any corporation, partnership, limited liability company or other business entity in which all of the equity owners are Accredited Investors;

(2) Any trust, with total assets in excess of $5,000,000 if (i) the trust has not been formed for the specific purpose of purchasing Units, and (ii) the trust's purchase of Interests is being directed by a sophisticated person with the knowledge and experience in financial and business matters required to capably evaluate the merits and risks of an investment in Units;

(3) Any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("**ERISA**") with either (i) $5,000,000 in total assets (regardless of liabilities) or (ii) a bank, insurance company or registered investment advisor as its trustee;

(4) Any self-directed ERISA plan with investment decisions made solely by persons that are Accredited Investors; or

(5) An individual retirement account ("**IRA**") owned by an Accredited Investor.

Other Accredited Investors

Certain other entities may also be eligible to be Accredited Investors. Prospective investors with questions should communicate with the General Partner for further information.

Verification of Accredited Status

Units are being offered pursuant to Rule 506(c) of Regulation D which became effective as of September 23, 2013 ("**Rule 506(c)**"). Pursuant to Rule 506(c), the General Partner is required take reasonable steps to verify that all purchasers of Units meet the accredited investor standards set forth above at the time such Units are

[1] See the Subscription Agreement attached hereto as Exhibit B for further information regarding calculation of an investor's net worth or joint net worth.

purchased. To meet this requirement, individual investors (i.e., natural persons) purchasing Units are required to deliver documentation to the General Partner at the time of subscription that is sufficient for the General Partner to verify the investor's accredited status. A nonexclusive list of the types of verification documentation that may be provided is set forth below.

Income Test

Individuals representing in the Subscription Agreement that they are accredited under the Income Test must provide documentation reflecting annual income in excess of the Income Test thresholds for each of the two years ending prior to the purchase of Units and must represent in the Subscription Agreement that the investor has a reasonable expectation of reaching the income level in excess of the Income Test thresholds during the year of purchase. Acceptable documentation reflecting annual income includes any document issued by the Internal Revenue Service ("**IRS**") that reports the individual investor's income for the applicable year including, but not limited to: (i) IRS Form W-2; (ii) IRS Form 1099 (iii) IRS Schedule K-1; (iv) IRS Form 1065; (v) IRS Form 1040); or (vi) any combination thereof.

Net Worth Test

Individuals representing in the Subscription Agreement that they are accredited under the Net Worth Test must provide reliable documentation evidencing both the investors assets and liabilities dated within three months of the subscription date. Acceptable verification documentation under the Net Worth Test include the following:

(1) Documentation of Assets. Acceptable documentation reflecting and investors assets include: (i) personal bank statements; (ii) brokerage statements or other statements reflecting securities held by the investor and the value thereof; (iii) certificates of deposit (i.e., CDs) held by the investor; and/or (iv) tax assessments and/or appraisal reports issued by independent third parties indicating the value of real estate assets held by the investor.

(2) Documentation of Liabilities. To verify an investor's liabilities the investor must: (i) provide or authorize the General Partner to obtain a credit report from one or more nationwide consumer credit reporting agencies; (ii) provide a written statement of any liabilities not reflected in the investors credit report that are material to a determination of the investor's net worth; and (iii) represent in the Subscription Agreement that all liabilities required for the General Partner to determine the individual's net worth have been fully disclosed to the General Partner either in the investors credit report or in the statement of liabilities described in (ii), hereof.

Third Party Confirmation

As an alternative to the documentation procedures outlined above, any investor may verify his or her accredited status by delivering to the General Partner a written confirmation of accredited status that meets the requirements of Rule 506(c)(2)(ii)(C) (a "**Third Party Confirmation**") including each of the following:

(1) The Third Party Confirmation must be issued by: (i) a registered broker-dealer; (ii) an investment adviser registered with the Securities and Exchange Commission; (iii) a licensed attorney who is in good standing under the laws of the jurisdictions in which he or she is admitted to practice law; or (iv) a certified public accountant who is duly registered and in good standing under the laws of the place of his or her residence or principal office; and

(2) The Third Party Confirmation must include a representation by the issuing party that he, she or it has taken reasonable steps to verify that the investor is an accredited investor within three months of the investor's purchase of Units and has determined that the investor is an accredited investor.

Additional Standards

Units may be acquired for investment purposes only, and not with a view to, or for resale in connection with, any further distribution thereof.

TERMS OF THE OFFERING

This offering of Units is made to a limited number of qualified investors that meet the investor suitability standards set forth above. The Unit subscription price to each Limited Partner is $100 per Unit with a minimum subscription from each investor of $2,000, or 20 Units. Each Unit of investment represents a limited partnership interest in the Fund.

Minimum-Maximum Offering; Formation of the Fund

The Fund was formed on December 14, 2000 upon the filing of the Certificate of Limited Partnership with the Office of the California Secretary of State; however, the General Partner did not begin offering interests in the Fund until January 2008 and began doing business (i.e., making or investing in mortgage loans) in February of 2008.

The maximum capitalization of the Fund is $5,000,000 (20,000 Units). This maximum may be increased by the General Partner at any time. This offering may also be terminated at the option of the General Partner at any time.

Subscription Agreements; Admission to Fund

Units may be purchased for a purchase price of $100.00 per Unit by completing the Subscription Agreement and Power of Attorney attached hereto as Exhibit B (the "**Subscription Agreement**") and delivering the executed Subscription Agreement to the General Partner. Subscriptions are payable in cash; however, in the case of investors that hold direct interests in loans being serviced by the General Partner ("**Trust Deed Investors**"), subscriptions may be made by directing the General Partner to utilize all or a portion of the distributions payable to a Trust Deed Investor on their outstanding Trust Deed Investments to purchase Units in the Fund.

Subscription Agreement Warranties

The Subscription Agreement requires each potential investor to make certain warranties upon which the General Partner will rely in accepting an investor's subscription. These include a warranty from each potential investor that:

- The investor has received this Memorandum;
- The Investor meets the investor suitability standards;
- The investor is aware that the General Partner may reject any subscription;
- The investor is aware that there will be no public market for the Units and none is expected to develop in the future;
- The investor understands the restrictions on transferability and withdrawals and that the investor may be required to hold their Units for an undetermined period of time;
- The investor has sufficient liquid assets to provide for the investor's current needs and personal contingencies or, if a trustee, that limited liquidity will not affect its ability to make timely distributions; and
- The investor has the power, capacity and authority to make the investment.

The purpose of these warranties is to ensure that the investor fully understands the terms of the offering, the risks of an investment and that the investor is qualified and has the capacity to enter into the Subscription Agreement and invest in Units. In any claim or action against the Fund or the General Partner, the Fund or the General Partner may use the warranties in the Subscription Agreement as a defense or as basis for seeking indemnity if the representations are false.

Cash Subscriptions

Any potential investor including Trust Deed Investors, may purchase Units for Cash by completing and executing the Subscription Agreement and delivering the Subscription Agreement to the General Partner together with the purchase price payable for Units ("**Cash Subscriptions**"). The minimum Cash Subscription amount is $2,000 (i.e., 20 Units); provided, however, that the General Partner may, in its sole discretion, accept Cash Subscriptions in lesser amounts and may issue fractional Units. Cash Subscriptions will be accepted or rejected by the General Partner promptly after receipt. The General Partner reserves the right to reject any Cash Subscription submitted for any reason. If accepted, an investor submitting a Cash Subscription (a "**Cash Subscriber**") will become a Limited Partner and the Cash Subscriber's entire investment will be deposited into the Fund only when all, or any portion, of the Cash Subscriber's subscription funds are required by the Fund to invest in a mortgage loan, to create appropriate reserves or for any other proper Fund purpose at which time all or a portion of the Cash Subscription funds will be transferred to the Fund. (See "Use of Proceeds.") Until then, a Cash Subscriber's subscription is irrevocable, and Cash Subscription funds received by the General Partner may be held by it for the account of each Cash Subscriber in a subscription account pending transfer into the Fund (the **"Subscription Account**"). Generally, investors' funds will be transferred from the subscription account into the Fund's operating account on a first-in, first-out basis; however, the General Partner reserves the right to admit non-ERISA plan investors before ERISA plan investors in order for the Fund to remain exempt from the application of the plan asset regulations issued by the Department of Labor in 1986. (See "ERISA Considerations.") The General Partner has the right to admit only a portion of an investor's subscription funds at any given time; however, in no case will the General Partner admit less than the required minimum investment by a Cash Subscriber (i.e., $2,000). Only upon transfer of an investor's subscription funds from the subscription account into the Fund's operating account will an investor become a Limited Partner in the Fund. Upon admittance, an investor's subscription funds plus interest earned on such subscription funds while being held in the subscription account, will be released to the Fund and Units will be issued at the rate of $100 per Unit.

Cash Subscriptions are non-cancelable and irrevocable, and subscription funds are non-refundable for any reason, except with the consent of the General Partner. Notwithstanding the preceding sentence, subscription funds (including interest earned) remaining in the subscription account 60 days after those funds were received from the investor shall be returned to the investor if a written request is received from the investor prior to the subscription funds being admitted to the Fund. After having subscribed for at least 20 Units ($2,000), an investor may at any time, and from time to time, subscribe to purchase additional Units in the Fund so long as the offering is open.

Rollover Subscriptions

In addition to purchasing Units for cash, Trust Deed Investors receiving periodic interest principal payments ("**Trust Deed Distributions**") on outstanding trust deed investments serviced by the General Partner (each a "**Trust Deed Investment**") may purchase Units by directing the General Partner to utilize all or a portion of such Trust Deed Distributions to purchase Units on their behalf (a "**Rollover Subscription**"). Rollover Subscriptions may be made by indicating the number of Units to be purchased from Trust Deed Distributions in the "Rollover Subscription Election" section of the Subscription Agreement. The $2,000 initial minimum subscription amount applicable to Cash Subscriptions is not applicable to Rollover Subscriptions and existing Trust Deed Investors and Trust Deed Investors are not required to subscribe for Units equal to the entire amount payable to such investor under their Trust Deed Investment. Any Trust Deed Distributions in excess of the number of Units subscribed for (if any) will be, thereafter, be distributed to the Trust Deed Investor in accordance with the Loan Servicing Agreement governing the applicable Trust Deed Investment.

Trust Deed Investors must meet the Investor Suitability Standards set forth above at the time the Rollover Subscription is submitted and by delivering a Rollover Subscription Agreement to the General Partner a Trust Deed Investor is authorizing the General Partner to issue future payments otherwise due to the Trust Deed Investor to the Fund for the in exchange for the number of Units indicated therein. Rollover Subscriptions received from Trust Deed Investors will be accepted or rejected by the General Partner promptly after receipt. The General Partner reserves the right to reject any Rollover Subscription submitted for any reason and may cancel previously submitted Rollover Subscriptions at any time, for any reason, including, but not limited to, the General Partner's determination that the issuance of any new Units in accordance with a Rollover Subscription would violate any securities laws or other laws or regulations applicable to this offering.

If accepted, each Trust Deed Distribution made from the General Partner's trust account following such acceptance will be made payable to the Fund for the benefit of the Trust Deed Investor and immediately deposited into the Subscription Account. Rollover Subscriptions will be transferred from the Subscription Account to the Fund's operating account on the first day of the next month following the date Trust Deed Distribution is made, only, at which time Units in the amount of the Trust Deed Distribution will be issued in the name of the Trust Deed Investor at the rate of $100 per Unit. Rollover Subscriptions payable from future Trust Deed Distributions are cancelable by a Trust Deed Investor at any time prior to the transfer of the Trust Deed Distribution into the Fund's Subscription Account at which point such subscriptions become irrevocable, except at the discretion of the General Partner.

Election to Receive Monthly Cash Distributions

Upon subscription for Units, an investor must elect whether to receive monthly cash distributions from the Fund or to allow his or her earnings to compound for the term of the Fund. This election, once made, is irrevocable except at the discretion of the General Partner. The General Partner reserves the right, at any time, to immediately commence making monthly cash distributions to ERISA plan investors who previously compounded earnings in order to ensure that the Fund remains exempt from the Plan Asset Regulations pursuant to the "significant participation" exemptions. (See "ERISA Considerations.")

Income allocable to investors who elect to compound their earnings will be retained by the Fund for investing in mortgage loans or other proper Fund purposes. Income from additional loans made by the Fund will be allocated among all Limited Partners; however, investors who compound will be credited with a gradually increasing proportionate share of Fund earnings compared to investors who receive monthly distributions because the capital accounts of those investors who compound will gradually increase. (See Summary of Limited Partnership Agreement – Capital Account Maintenance.")

Use of Subscriptions to Pay Pending Withdrawal Requests

Subscription amounts transferred into the Fund may be utilized by the General Partner for any proper Fund purpose, including funding mortgage loan investments, creating appropriate reserves or paying Fund expenses. Additionally, the General Partner may accept subscriptions for the purpose of fulfilling Limited Partners' withdrawal requests if at the time of receipt of a subscription there is a "waiting list" for withdrawals from the Fund. (See "Summary of Limited Partnership Agreement – Withdrawal from Fund" and "Risk Factors – Risks Related to Ownership of the Units.") Investors should ask the General Partner about the aggregate amount of the then-current waiting list for withdrawals and the anticipated waiting period (if any) if that information would be a factor in determining whether to invest in Units.

Restrictions on Transfer

The sale of Units in this offering has not been registered with the Securities and Exchange Commission ("**SEC**") under the Securities Act of 1933, as amended (the "**Securities Act**"), and is being made in reliance upon the exemptions from such registration requirements provided for under Section 4(a)(2) of the Securities Act and Regulation D promulgated by the SEC for certain limited or private offerings. The Units cannot be resold without registration under the Securities Act or pursuant to an exemption therefrom. Similarly, the sale of these Units has not been qualified with the securities commissioner of any state, in reliance on the exemption from such qualification requirements provided under the provisions of state securities laws relating to the private placement of securities.

There is no public or trading market for the Interests, and the General Partner does not anticipate that one will develop in the future. The General Partner does not anticipate registering the Interests with the SEC to facilitate resales. Therefore, Investors must be prepared to hold the Interests indefinitely, without the expectation of liquidity in this investment. Under SEC Rule 144, investors will be required to hold their shares for at least six months and possibly one year before being able to dispose of them, unless the sale is registered under the Act or another exemption is available. (See "Risk Factors – There is no market for the Interests.")

The Limited Partnership Agreement places the additional restriction that the General Partner must give its prior written consent, which may be withheld in the General Partner's sole discretion, to any sale, transfer or encumbrance of all or any part of an Interest in the Fund. Also, Investors have limited rights to withdraw from the Fund. (See "Summary of the Operating Agreement.") *Therefore, Investors needing access to their invested capital in the near term should not invest.*

FUND BUSINESS AND LENDING

The Fund will engage in the business of making or purchasing loans secured by deeds of trust that encumbering real estate located in California and nationally and, in some circumstances, loans that are secured by promissory notes that are, in turn, secured by deeds of trust (i.e., hypothecated notes). The Fund may also purchase loans from third parties when, in the General Partner's discretion, it is beneficial for the Fund to do so. All Fund loans will be selected by the General Partner pursuant to the guidelines set forth in the "Lending Standards and Policies" subsection below.

General

The General Partner is a licensed California real estate broker and will be responsible for selecting, underwriting and arranging the loans made or purchased by the Fund. In addition to the asset management fee payable to the General Partner for managing the Fund, the General Partner will earn points, averaging 0% to 5% of loan principal, on all loans it arranges for the Fund and will receive a servicing fee for servicing each loan on behalf of the Fund. (See "Compensation to General Partner" and "Conflicts of Interest.") Borrowers generally will borrow from the Fund an amount sufficient to pay the points to the General Partner, which becomes part of the loan balance to be repaid by the borrower. All of the promissory notes and deeds of trust evidencing Fund loans will list the Fund as the initial lender or will be assigned to the Fund upon purchase of the loan. The Fund will earn income from the interest on such loans, and from the Fund's portion of late fees, prepayment penalties and other fees which may be charged to borrowers. (See "Compensation to General Partner.")

The Fund may in some circumstances rely primarily on the value of the real property securing loans to protect its investment with less emphasis on the credit of the borrower. To determine the value of the real property, the Fund will obtain an appraisal to determine the fair market value of real property used to secure loans made by the Fund, but no assurance can be given that such an analysis will in any or all cases, be and remain accurate. (See "Risk Factors – Risks Related to the Fund's Business.")

In some circumstances, the Fund may purchase undivided fractional interests in loans ("**Fractional Interests**") arranged by the General Partner on behalf of the Fund and other lenders rather than funding an entire loan; however, the Fund will only acquire Fractional Interests in loans that meet the standards set forth in the "Lending Standards and Policies" section, below. (See "Risk Factors – Risks Relating to the Fund's Business" and "Conflicts of Interest – Fractional Interests.")

Lending Standards and Policies

General Standards for Mortgage Loans

The Fund, either alone or by participating with other lenders (including the General Partner or an affiliate of the General Partner), will engage in the business of making or investing in business purpose loans secured by deeds of trust on real property located within or outside of California, including non-owner occupied residential properties, commercial and industrial properties, mixed use properties and unimproved land. The Fund may make or invest in construction or rehabilitation loans that are underwritten based upon the completed value of the construction or rehabilitation due to the increased risks of loss associated with such loans; however, to date, it has not done so.

The Fund may also make loans to finance legal cannabis businesses operating in California and, potentially, other states, including grow facilities, dispensaries and manufacturers of cannabis related products ("**Cannabis Operators**"). Cannabis related loans ("**Cannabis Loans**") may be made (i) directly to Cannabis Operators to fund

the acquisition, refinancing or development of commercial, industrial or agricultural properties being used to grow or dispense cannabis, or to manufacture cannabis related products; or (ii) to non-Cannabis Operators seeking to acquire, refinance or develop properties for lease or sale to Cannabis Operators for such uses. If Cannabis Loans are made by the Fund, the Fund will take reasonable actions to ensure that all Cannabis Operators related to such loans (as borrowers or otherwise) are operating legally and in accordance with current state, county and city regulations applicable to such operations. There is no guaranty, however, that potential violations of such laws will not go undetected at the time the loan is made or that violations will not occur thereafter. Cannabis Loans are also subject to additional risks related to the continued illegality of cannabis under federal law. (See "Risk Factors – Risks Related to Cannabis Loans

The Fund's loans will not be insured or guaranteed by any governmental agency or private entity. The Fund will select and underwrite loans for investment pursuant to the guidelines set forth below, which guidelines are designed to set standards for the quality of the real property security given for the loans.

1. Priority of Mortgages. Loans will be secured by a first or second deed of trust or mortgage (collectively referred to herein as a "deed of trust") on real property located in California and throughout the United States. If a loan is secured by a first deed of trust, the deed of trust will be senior to all other recorded monetary liens other than liens for taxes or the assessments of special assessment districts to fund streets, utilities or other public improvements. If a loan is secured by a second deed of trust the obligations secured by the senior lien(s) must not be in default at the time of the loan closing; however, loan proceeds may be used to cure defaults under the senior lien(s). Loans may also be secured by one or more additional deeds of trust encumbering other real property owned by the borrower or its affiliates where, in the General Partner's reasonable judgment, such cross-collateralization is necessary to meet the loan-to-value ratio requirements set forth herein.

2. Property Types. Fund loans will be business purpose loans secured by commercial and industrial properties and non-owner occupied residential properties and may include, without limitation, apartment buildings, office buildings, warehouses and industrial complexes and small shopping centers. The Fund will not make any construction loans, nor will it make or invest in consumer loans (i.e., loans made for personal, family or consumer purposes) or loans secured by owner-occupied residential properties. The Fund may occasionally make loans secured by unimproved land, but only if the loan is secured by a first deed of trust on the property.

3. Geographic Area of Lending Activity. To date, Fund loans have primarily been made and secured by properties in California, Indiana, Ohio and Florida; however, Fund loans may be secured by deeds of trust or mortgages on properties located throughout the United States. All such loans must satisfy the underwriting criteria described herein. (See "Risk Factors – Risk Related to the Fund Business" and "Certain Legal Aspects of Fund Loans – Foreclosure.")

4. Loan-to-Value Ratios. The amount of Fund loans, combined with the outstanding debt secured by any senior deed of trust on the security property, generally will not exceed the percentages stated below, based on the value of the security property as determined by an independent third party appraisal at the time the loan is made.

First Deeds of Trust

Type of Security **Property**	**Loan-To-Value Ratio**
Commercial property (including industrial, retail and mixed use properties)	65%
Non-owner occupied residential loans (business purpose only)	75%
Unimproved Land	50%

Second Deeds of Trust

Type of Security Property	Loan-To-Value Ratio
Commercial property (including industrial, retail and mixed use properties)	65%
Non-owner occupied residential loans (business purpose only)	70%
Unimproved Land	None

The loan-to-value ratios for Fund loans may exceed the foregoing percentages if, in Blackburne's reasonable judgment, a higher loan amount is warranted by the circumstances of the particular loan, such as personal guaranties, prior loan history with the particular borrower, improved market conditions, etc. However, in no event, shall the aggregate principal amount of any Fund loan, together with the unpaid principal amount of any encumbrances upon the property senior thereto, exceed 80% of the fair market value of the property securing the loan.

The foregoing loan-to-value ratios will not apply to purchase-money financing offered by the Fund to re-sell any real estate acquired by the Fund through foreclosure or to refinance an existing loan that is in default at the time of maturity. In such cases, the General Partner, in its sole discretion, shall be free to accept any reasonable financing terms that it deems to be in the best interests of the Fund.

In determining the value of a security property, the Fund will use only independent third party certified appraisers or other independent appraisers.

Although the Fund may conduct cursory physical inspections of the security property, due to the costs involved in most cases it will not obtain inspection reports from licensed civil engineers nor will it obtain environmental site assessments or otherwise conduct thorough environmental investigations to determine the existence of any toxic or hazardous substances. (See "Risk Factors – Environmental Liabilities.")

5. Terms of Loans. Most Fund loans will be for a period of one to 10 years, but in no event more than 15 years. Most loans will provide for monthly payments of principal and interest, with a "balloon" payment of principal payable in full at the end of the term.

6. Loan Documents. All loan documents (notes, deeds of trust, etc.) and insurance policies regarding loans made by the Fund will name the Fund as payee and beneficiary. However, in those cases where the General Partner, an Affiliate or a third party makes a loan which is then purchased by the Fund, the loan documents and insurance policies will name the initial payee of the loan (i.e., the General Partner, an Affiliate or a third party). Upon the Fund's purchase of all or a portion of such loan, the note and deed of trust, or such portion thereof, will be assigned to the Fund. All deeds of trust or assignments of the deed of trust will be duly recorded in the county where the security property is located and, in the case of a purchased loan, the note will be duly endorsed in favor or the Fund.

7. Escrow Conditions. Fund loans will be funded through the General Partner or a qualified title insurance or escrow company. The escrow agent will be instructed not to disburse any of the Fund's funds out of the escrow for purposes of funding the loan until the following conditions are met:

(a) Satisfactory title insurance coverage has been obtained for all loans, with the title insurance policy naming the Fund as the insured and providing title insurance in an amount equal to the principal amount of the loan. Title insurance insures only the validity and priority of the Fund's deed of trust, and does not insure the Fund against loss by reason of other causes, such as diminution in the value of the security property, over-appraisals, borrower's defaults, etc.

(b) Satisfactory fire and casualty insurance has been obtained or all loans (except loans secured by unimproved land), which insurance shall name the Fund as loss payee in an amount at least equal to the replacement value of the improvements on the security property. (See "Risks and Other Important Factors.") The General Partner does not intend to arrange for mortgage insurance which would afford some protection against loss if the

Fund foreclosed on a loan and there was insufficient equity in the security property to repay all sums owed. Additionally, the General Partner will not require the borrower to carry liability insurance.

(c) All loan documents (notes, deeds of trust, etc.) and insurance policies will name the Fund as payee and beneficiary or additional loss insured, as applicable. In the event the Fund purchases loans, the Fund shall receive assignments of all beneficial interest in any documents related to each loan so purchased. Fund investments in loans will not be held in the name of the General Partner or any other nominee.

8. No Loans to the General Partner. No loans will be made to the General Partner or to its Affiliates.

9. Note Hypothecation. The Fund also may make loans that are secured by pledges (or "hypothecations") of loans that are, in turn, secured by mortgages. The amount of the pledged (or "hypothecated") loan must satisfy the loan-to-value ratios set forth in Paragraph 4 above, and the Fund's loan will not exceed 80% of the principal balance of the hypothecated loan. For example, if the property securing a promissory note is unimproved land, (a) the total amount of outstanding debts secured by the property (including the hypothecated loan and any senior mortgages) must not exceed 50% of the appraised value of such property, and (b) the Fund loan will not exceed 80% of the principal balance of the hypothecated loan. For purposes of making loans secured by hypothecated notes, the Fund shall rely on the appraised value of the underlying property as of the date the loan being hypothecated was made, subject to the General Partner's reasonable determination that the property has not declined by an amount that would cause the Fund's loan to exceed either of the foregoing size limitations. No more than twenty percent 20% of the Fund's loan portfolio at any time will be secured by assigned hypothecated notes.

10. Loan Diversification. No Fund loan (or Fund interest in a loan) will exceed 20% of total Fund assets.

Credit Evaluations

The General Partner intends to strongly consider the income level and general creditworthiness of a borrower to determine his or her ability to repay the Fund loan according to its terms; however, on occasion such considerations may be subordinate to a determination that a borrower has ample equity in the security property to satisfy the loan-to-value ratios described above. Loans may be made to borrowers who are in default under other of their obligations (e.g., to consolidate their debts) or who do not have sources of income that would be sufficient to qualify for loans from other lenders such as banks or savings and loan associations.

Sale of Loans

The Fund will make mortgage loans for investment, and does not engage in real estate operations (other than those which may be required if, among other things, the Fund forecloses on a property on which it has made a mortgage loan and takes over management of the property). The Fund does not presently intend to make mortgage loans primarily for the purpose of reselling such loans in the ordinary course of business. However, the Fund may occasionally sell mortgage loans (or fractional interests therein) when the General Partner determines that it appears to be advantageous to the Fund to do so, based upon then current interest rates, the Fund's cash flow requirements, and the investment objectives of the Fund.

FUND MANAGEMENT AND LOAN SERVICING

General

The General Partner will have the sole authority to manage the affairs of the Fund including the sole authority to: (i) identify and arrange loans and Fractional Interests to be made or purchased by the Fund; (ii) monitor and assess loan portfolio performance and set the Fund's accounting procedures; (iii) oversee loan servicing and make loan enforcement decisions; and (iv) otherwise direct the day-to-day operations of the Fund. Limited Partners will have limited rights to vote on or direct the actions of the Fund and must rely upon the Manger to make decisions in the best interests of the Fund. (See "Risk Factors – Risks Related to the General Partner" and "Conflicts of Interests.")

Loan Brokerage and Servicing

It is anticipated that the General Partner will act as the Fund's exclusive loan broker pursuant to its real estate broker's license and will arrange the funding or purchase of Fund loans or Fractional Interests in consideration of points payable to the General Partner by the borrower. (See, "Compensation to the General Partner and its Affiliates" and "Conflicts of Interest.") The General Partner will also "service" Fund loans which includes the collection of loan payments, performing administrative services in connection with the loan and, if necessary, taking all actions the General Partner deems necessary to enforce the terms of the loan documents upon a default.

If the Fund makes or purchases a Fractional Interest in a loan, the General Partner will service the loan on behalf of the Fund and the other Fractional Interest holders (the "**Co-Lenders**") pursuant to the terms of a Loan Servicing and Equity Interest Agreement entered into by the Fund, the General Partner and each of the Co-Lenders (the "**Co-Lender Servicing Agreement**"). Pursuant to the terms of the Co-Lender Servicing Agreement, Co-Lenders holding Fractional Interests representing more than 50% of the aggregate outstanding Fractional Interests in the loan will have the right to direct all decisions following a material loan default including the right to approve: (i) extended forbearances, loan extensions or material loan modifications; (ii) any forgiveness of principal or regular interest payable under the loan; (iii) the terms and conditions of any entity formed to take title to the security property following foreclosure; and (iv) foreclosure by judicial disclosure rather than under the power of sale contained in the deed of trust. Consequently, to the extent the Fund invests in less than 50% of the total Fractional Interests outstanding in a loan, the Fund will be subject to additional risks not inherent in whole loans or loans in which the Fund holds a majority interest. (See "Risk Factors – Risks Relating to the Fund's Business.") Moreover, by acting as the servicing agent of both the Fund and the other Co-Lenders, the General Partner is subject to additional conflicts of interest whether or not the Fund holds a majority or minority interest in the loan. (See "Conflicts of Interest")

Fund Accounting

The General Partner shall, in consultation with the Fund's accountants, be responsible for determining the accounting policies and procedures of the Fund. In connection therewith, the General Partner will assess the Fund's portfolio at intervals determined by the General Partner to be reasonable in light of current market conditions in order to account for or recognize any impairment to the loans comprising the Fund's portfolio or to otherwise comply with generally accepted accounting principles ("**GAAP**").

At the Fund's inception, the General Partner established a loss reserve for the purpose of recognizing over time the estimated losses on Fund loans and on the sale of properties securing Fund loans taken through Foreclosure ("**Loan Loss Reserve**"). These potential losses are charged against monthly Fund income in an amount deemed necessary by the General Partner to accumulate an adequate Loan Loss Reserve in light of existing loan losses and estimated loan losses identified periodically by the General Partner over the life of the Fund.

To assess the risk of losses that may be incurred on loans held by the Fund, the General Partner undertakes periodic evaluations of the Fund's loan portfolio on a loan-by-loan basis. Loans are assessed for various risk factors including payment history, current economic conditions, collateral type, initial loan to value ratios, current estimated loan-to-value ratios and any other factor that might affect the full recoverability of a Fund loan balance. Delinquent loans are assessed based upon the length of the delinquency and the potential that the Fund will not collect all amounts due from a borrower under the loan through payment or through recovery of the full loan balance from the value of the security property.

The Fund's current accounting policy is to cease to accrue interest (for purposes of calculating earnings) on any loan that is delinquent for a period of two months ("**Non-Accrual Status**"). Further payments received on Fund loans that have been placed on Non-Accrual Status will be accounted for by the Fund on a cash rather than accrual basis until loan payments are again being received by the Fund on a current basis. If events or circumstances relating to a loan (on Non-Accrual Status or otherwise) cause the General Partner, in its reasonable judgment, to have serious doubts about the full recovery of the entire loan balance due from a borrower, the General Partner may categorize such loan as "impaired" (an "**Impaired Loan**"). In such event, the General Partner will attempt to assess the potential loss that may be realized by the Fund in connection with the Impaired Loan and whether the Loan Loss Reserve should be increased to reflect that assessment.

In the event that real estate is acquired by the Fund (an "**REO Property**") through foreclosure or by deed in lieu of foreclosure the REO Property is initially recorded at its fair market value less a specific reserve for estimated costs required for sale of the property unless the General Partner does not intend to dispose of the property by sale (e.g., the property will be held and rented to third parties until a higher re-sale price may be obtained). To the extent the REO Property's fair market value less costs of sale is less than the prior carried value of the loan secured by the REO Property, the amount of such difference is charged against earnings and created to a loss reserve established for REO Properties. (See "Operations to Date – Portfolio Performance.") If the General Partner determines that circumstances may make it more beneficial for the Fund to hold the REO Property until a better sales price may be obtained, the REO Property value will be recorded and carried at the lower of the REO Property's new cost basis or its current fair market value less estimated costs of sale.

ALL OF THE FUND'S ACCOUNTING POLICIES INCLUDING THOSE RELATED TO IMPAIRED LOANS, NON-ACCRUAL STATUS AND THE FUND'S LOAN LOSS RESERVE ARE MADE IN CONSULTATION WITH THE FUND'S ACCOUNTANTS IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PROCEDURES. THE GENERAL PARTNERS MAY, IN CONSULTATION WITH THE FUND'S ACCOUNTANTS, REVISE ANY FUND ACCOUNTING POLICY AT ANY TIME WITHOUT THE APPROVAL OF, OR NOTICE TO, ANY OF THE LIMITED PARTNERS.

COMPENSATION TO GENERAL PARTNER

The following discussion summarizes the forms of compensation to be received by the General Partner. All of the amounts described below are payable regardless of the success or profitability of the Fund. None of the following compensation was determined by arm's length negotiations.

Form of Compensation to General Partner	Estimated Amount or Method of Compensation
Interest in Profits and Losses of the Fund.....	1% of all Fund profits and losses will be allocated to the General Partner.
Reimbursement of Expenses.....	The General Partner has not received reimbursement for the organization costs of the Fund. The General Partner, however, will be entitled to reimbursement for ongoing out-of-pocket operating expenses of the Fund, including the fair value of computer programming services rendered by the General Partner and of its employees and agents in establishing Fund accounting procedures and computer programs.
Loan Origination Fees (Points).....	Ranging from 0%-5% of the principal amount of each loan, payable by borrowers and not by the Fund.
Loan Extension/Renewal Fees.....	1%-2% of the outstanding loan amount.
Loan Servicing Fee.....	Generally 1% -2% of the principal amount of each Fund loan, payable monthly (i.e., $1/12^{th}$ of 1% - 2% each month), but may be higher or lower on a case by case basis. [1]

[1] In no event shall loan servicing fees payable to the General Partner exceed the amounts generally charged for comparable services by similar mortgage lenders in the geographical area where the security property for the loan is located. So long as no payment default exists under a Fund loan, the servicing fee is payable from interest payments received from the borrower on the loan. To the extent payments received from a borrower on a loan are insufficient to pay the full amount of any servicing fees due on the loan, servicing fees will continue to accrue in favor of the General Partner unless and until foreclosure by the Fund (and any other lenders in the case of a fractionalized loan) and acquisition of the security property by the Fund (or the Fund's percentage interest in the security property). In such event, the General Partner will have the right to elect to either: (i) allow any unpaid servicing fees to accrue and be paid from the future loan proceeds or proceeds received from the security property; or (ii)

Asset Management Fee	1/24th of 1% of Net Assets Under Management, payable monthly (i.e., 1/2 of 1% per year).[2]
Late Charges	Up to one-half of all late charges collected with respect to each loan serviced.
Default Interest	One-half of any additional interest collected by reason of an increase in the interest rate on a Fund loan due to a default by the borrower.
Assumption Fees	Two-thirds of all assumption fees, if any, collected with respect to each loan serviced.
Other Potential Compensation	The General Partner may negotiate additional fees payable by borrowers on a case by case basis including exit fees, shared income or equity appreciation payments on shared income and shared appreciation loans, if any. In such circumstances the General Partner will be entitled to retain all or a portion of such fees.

OPERATIONS TO DATE

The Fund began doing business (i.e., investing in mortgage loans) on February of 2008 after the minimum of 1,500 Units in the Fund were sold. As of July 31, 2018, approximately 32,348 Units (i.e., $3,234,801) had been sold pursuant to this offering and the Fund was invested in 40 mortgage loans (or Fractional Interests therein) in the aggregate principal amount of $1,615,499. Information regarding the Fund's prior performance and current loan portfolio is set forth below. Unless otherwise stated, all information set forth below is current as of July 31, 2016.

Yields to Investors

The average annual net yield paid to the Limited Partners since its inception and through December 31, 2017 are set forth below. The yields paid to the Limited Partners from 2011 through 2015 include the waiver of a portion of the loan servicing fees, asset management fees and/or the 1% profits interest otherwise payable the General Partner pursuant to the terms of the Limited Partnership Agreement. The amount of the waived fees and profits were as follows: (i) 2011 – $33,573; (ii) 2012 – $37,545; (iii) 2013-$43,330; (iv) 2014 - $42,577; and (v) 2015 – $39,388. As indicated in the table below, the average annual net yield earned by the Fund which would have been payable to the Limited Partners for these periods would have been lower without the waiver of such fees. The General Partner has no obligation to waive any fees or profits interests in the future.

Year	Average Annual Net Yield Paid	Average Annual Net Yield Earned
2011	8.37%	6.07%
2012	6.61%	4.95%
2013	5.83%	4.34%

require the lenders on the loan (including the Fund) to pay any accrued but unpaid servicing fees pursuant to the assessment provisions provided in the loan servicing agreement entered into in connection with the loan.

[2] "Net Assets Under Management" means the total Fund capital, including cash, notes (at book value), real estate owned (at book value), accounts receivable, advances made to protect loan security, unamortized organizational expenses and any other Fund assets valued at fair market value, less Fund liabilities. The Asset Management Fee will be paid on the last day of each calendar month with respect to Net Assets Under Management as of such date.

2014	7.23%	5.11%
2015	9.89%	9.24%
2016	6.39%	6.39%
2017	5.82%	5.82%

Portfolio Diversification and Concentrations

As of July, the 40 mortgage loans (or Fractional Interests therein) held by the Fund were diversified as follows (calculated based upon principal balance):

Lien Priority Concentrations

Lien Priority	Aggregate Principal Amount of Loans	Percentage of Total Loan Principal
First Trust Deeds	$1,61,499	100.0%
Second Trust Deeds	$0	0.0%
Total:	$1,615,499	100.00%

Security Property Classifications

Type of Property	No. of Loans	Aggregate Original Principal Balance of Loans	Percentage of Aggregate Loan Principal
Residential (non-owner occupied business purpose loans only)	5	$433,836	26.8%
Commercial industrial property	33	$1,047,800	64.9%
Multi-Family Residential	0	N/A	0%
Unimproved land	2	$133,863	8.3%
Total	40	$1,615,499	100.0%

Portfolio Performance

As of July 31, 2018, the Fund had a total capitalization of approximately $3,234,801 of which $1,615,499[2] was invested in 40 real property secured loans. Information regarding the Fund's Impaired Loans, REO Properties and loans on Non-Accrual Status are set forth below. All information is current as of July 31, 2018. (See "Fund Management and Loan Servicing – Fund Accounting Procedures" for the definitions of Non-Accrual Status, Impaired Loans and REO Properties.)

Loan Defaults and Impaired Loans

As of July 31, 2018, the Fund had no existing loan defaults or Impaired Loans.

[2] Net of allowances for loan loss reserves. (See discussion in the "Loan Loss Reserves" subsection, below).

REO Property and Short Sales

From its inception through July 31, 2018, the Fund has had twelve (12) loans in the aggregate original principal amount of $765,018 that resulted in foreclosure and the acquisition of the real properties securing the loan ("**REO Properties**"). Information regarding these REO Properties is set forth below.

REO Status	No. of Properties Since Inception	Aggregate Prior Principal Loan Balance*	Aggregate Gain/(Loss) Upon Sale	Percent Total Fund Capital
REO Properties Sold	3	$184,471	($49,475) Actual	1.5%
REO Properties held by Fund	9	$580,547	($297,463) Estimated**	9.2%
TOTAL:	2	$765,018	346,938	10.7%

* Represents loan balance held by the Fund as Fractional Interests, not the total amount due on the loan (i.e., total principal amount loaned to borrower by all lenders).
** Estimated losses based upon purchase price listed for such properties. Actual sales prices and amount of total losses or gains to the Fund may vary from such estimate.

Loan Loss Reserves

The General Partner has established loan loss reserves for the purpose of recognizing over time the estimated loan losses of the Fund on Fund loans and on the sale of properties securing Fund loans acquired through Foreclosure ("**Loan Loss Reserves**"). These estimated losses are recognized by incurring charges against monthly Fund income in an amount deemed necessary by the General Partner to accumulate an adequate Loan Loss Reserve in light of any existing loan impairments and estimated future loan losses identified periodically by the General Partner. As of December 31, 2017 the Fund had aggregate Loan Loss Reserves of $88,944 which reflected reserves that the General Partner believes is adequate in light of the Fund's potential loan losses in the near term. The amount of the Fund's Loan Loss Reserves is based upon estimates by the General Partner only and is subject to adjustment in the future.

Withdrawals

As of July 31, 2018, the Fund had six (6) outstanding withdrawal requests in the total amount of $110,200 which were being paid in accordance with the Limited Partnership Agreement. (See "Summary of Limited Partnership Agreement – Withdrawal Limitations.")

Additional Information

A copy of the Fund's most recent audited financial statements are attached to this Memorandum as Exhibit C. Further details about the Fund's loan portfolio are included in those financial statements.

THE FOREGOING DISCUSSION IS FOR ILLUSTRATIVE PURPOSES ONLY, AND IS NOT A PREDICTION OF ACTUAL FUND RESULTS. ALL FINANCIAL INFORMATION PROVIDED HEREIN IS AS OF THE DATES SPECIFIED. FUND PERFORMANCE AS OF THE DATE THIS MEMORANDUM IS DELIVERED TO ANY POTENTIAL INVESTOR MAY BE BETTER OR WORSE THAN THE PERFORMANCE PROVIDED HEREIN. POTENTIAL INVESTORS MAY OBTAIN FUND'S CURRENT FINANCIAL INFORMATION BY CONTACTING THE GENERAL PARTNER.

ALL OF THE FUND'S ACCOUNTING POLICIES INCLUDING THOSE RELATED TO IMPAIRED LOANS, NON-ACCRUAL STATUS AND THE FUND'S LOAN LOSS RESERVE ARE MADE IN CONSULTATION WITH THE FUND'S INDEPENDENT ACCOUNTANTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING POLICIES. THE GENERAL PARTNER MAY, IN CONSULTATION WITH THE FUND'S ACCOUNTANTS, REVISE ANY FUND ACCOUNTING POLICY AT ANY TIME WITHOUT THE APPROVAL OF, OR NOTICE TO, ANY OF THE LIMITED PARTNERS.

THE GENERAL PARTNER AND AFFILIATES

The General Partner is Blackburne & Sons Realty Capital Corporation, a California corporation, which will manage and direct the affairs of the Fund. Loans will be arranged and serviced and the Fund assets will be managed by the General Partner. The General Partner and General Partner's principal executive officer are described below.

Blackburne & Sons Realty Capital Corporation

Blackburne & Sons Realty Capital Corporation ("**Blackburne**") was formed in 1980 under its prior corporate name "Blackburne & Brown Mortgage Company, Inc.," which name was changed to Blackburne & Sons Realty Capital Corporation in December of 2009. Blackburne obtained its corporate real estate broker's license from the California Department of Real Estate ("**DRE**") in 1981 and a Mortgage Loan Originator License Endorsement ("**MLO Endorsement**") in 2011. Blackburne is also licensed as a California Finance Lender with the California Department of Business Oversight ("**DBO**"). Blackburne was formed for the purpose of originating loans which are secured by first and second deeds of trust on income-producing real property in California and has since expanded its lending operations to other states and currently holds lending and loan servicing licenses in Arizona and Florida. Loans originated by Blackburne are sold to individual investors, employee benefit plans and the Fund and are fully serviced by Blackburne. Blackburne also brokers larger loan requests to selected financial institutions, specifically banks and savings and loans.

George Blackburne, III is the sole shareholder of Blackburne which currently has 14 employees. The following principals and officers of Blackburne will be responsible for underwriting the loans and offering the Units in the Fund.

George Blackburne, III. George Blackburne, a licensed attorney and a licensed real estate broker, is the founder and President of Blackburne. He is a graduate of the University of Santa Clara where he majored in finance. In 1982 he received his M.B.A. from the University of Santa Clara, with an emphasis in finance. He graduated with honors from the University of Northern California School of Law in May of 1991 and was accepted to the California State Bar in November of 1991. As President of Blackburne, he is responsible for all phases of operations.

Angela Vannucci. Angela Vannucci is Vice President of Blackburne. She is a graduate of Colorado School of Mines, with a B.S. in Economics and received her Master of Science in Accountancy (MSA) in July of 2009. Ms. Vannucci joined Blackburne in 2003, became licensed as a Salesperson by the DRE in April, 2004, obtained her MLO Endorsement in 2011 and transitioned to licensed Broker by the DRE in July, 2017.

Alicia R. Gandy. Alicia R. Gandy is a Senior Loan Representative at Blackburne. Ms. Gandy joined Blackburne in 1998, became licensed as a Salesperson by the California DRE in May, 2007 and obtained her MLO Endorsement in 2011.

George Blackburne IV. George Blackburne IV is a Loan Representative at Blackburne. He is a graduate of Ohio State University, where he received a degree in business in 2008. He joined Blackburne in 2008, became licensed as a Salesperson by the California DRE in October 2009 and obtained his MLO Endorsement in 2011.

Blackburne & Brown Mortgage Fund I

The General Partner is also the general partner of Blackburne & Brown Mortgage Fund I, L.P., a California limited partnership ("**Fund I**"), which was formed in 1991 to engage in the same business as the Fund offered hereby. Until 2007, Fund I offered limited partnership interests to qualified investors pursuant to a permit originally issued by the Department of Corporations on August 16, 1992 (File No. 505-3976). On January 23, 2008, Blackburne closed Fund I and commenced winding down its operations. The decision to close Fund I and wind

down its operations was made based upon the General Partner's assessment at the time that the turmoil in the lending and real estate markets resulting from the financial crisis would negatively affect Fund I's ongoing operations and result in yields below investor expectations for a considerable period of time. (See "Risk Factors – Risks Related to the Fund's Business.") The average annual investment yields earned by Fund I from 2004 through dissolution in 2008 ranged from a high of 5.96% in 2004 to a low of 3.75% in 2008. As of the date of this Memorandum, Fund I was continuing to liquidate its assets and wind down its operations. Potential investors that consider the overall performance of Fund I as material to their decision to invest in the Fund should contact the General Partner for more information prior to purchasing Units.

DRE Accusation

In June of 2007, the DRE initiated an administrative action (the "**Accusation**") against Blackburne and its designated broker and President, George Blackburne, III (collectively, the "**Blackburne Parties**"). The Accusation alleged three trust account violations occurring prior to November of 2006, resulting from the issuance of checks from Blackburne's trust accounts prior to sufficient funds being deposited into the trust accounts to cover the checks. The Accusation also alleged that improper signature authority on the trust accounts was granted to an unlicensed employee without the proper bonding. The DRE Accusation did not allege any conversion or misappropriation of investor funds, and the trust account shortages had already been rectified prior to the DRE audit and the filing of the Accusation.

The Accusation was settled by a Stipulation and Agreement between the Blackburne Parties and the DRE (the "**Stipulation**"), whereby Blackburne and Mr. Blackburne agreed to a 30-day suspension of Blackburne's real estate broker's license, which suspension was stayed for a period of two years subject to the payment of certain fees and audit costs by Blackburne and certain other conditions, all of which have been satisfied. Pursuant to the Stipulation, the 30-day suspension was vacated on July 10, 2010.

Further information regarding the Accusation may be obtained by contacting Blackburne at 4811 Chippendale Drive, Suite 101 Sacramento, California 95841, telephone no. (916) 338-3232, or by contacting the DRE directly at the following address: California Department of Real Estate, Mortgage Lending Unit, P.O. Box 187000, Sacramento, CA 95818-7000, telephone no. (916) 227-0770, website: www.dre.ca.gov.

RISK FACTORS

Any investment in the Units involves a significant degree of risk and is suitable only for investors who have no need for liquidity in their investments or who can bear the loss of their entire investment. When analyzing this offering, prospective investors should carefully consider the following risks and other factors, in addition to those discussed under the captions "Compensation to General Partner," "Conflicts of Interest," and "Federal Income Tax Consequences." If any of these risks actually occur, the business, financial condition and operating results of the Fund could be materially adversely affected.

Risks Related to the Fund's Business

The Fund will be in the lending business and subject to risks related to private money and high-yield mortgage loans.

The Fund does not intend to make the type of loans that resulted in the "sub-prime mortgage" collapse in 2007-2008, both because it will not make consumer loans secured by owner-occupied homes and because its loans will not have such high loan-to-value ratios. The Fund may, however, make or invest in loans to borrowers that are less creditworthy than those who can satisfy institutional lenders' credit requirements or who cannot satisfy institutional lenders' income documentation requirements which is one reason the Fund can charge higher interest rates on its loans. (See "Fund Business and Lending – Lending Standards and Policies.")

The Fund loans may also be made on an asset rather than credit basis. Such loans involve numerous risks, some of which include: (i) an increased risk of the non-availability of credit for a borrower to refinance a Fund loan at maturity; (ii) an increased risk of foreclosures in the area surrounding the security property negatively affecting

the value of the property securing a Fund loan; (iii) increased constraints on consumer credit affecting the ability of borrowers to sell residential property; and (iv) an increased risk of an abandonment of property by a borrower due to other financial problems or general market decline. The occurrence of any of these events for a borrower could lead to a default on a Fund loan, potentially causing losses and extra costs to the Fund, which may lead to lower returns or losses for investors.

The Fund could suffer defaults on the loans in its portfolio and may have to foreclose on the underlying real estate collateral.

The Fund is in the business of lending money and, as such, takes the risk of defaults by borrowers. Most Fund loans will provide for relatively small monthly payments of principal and interest with a large "balloon" payment of principal due at the end of the term. Most borrowers are unable to repay the principal amount of such loans out of their own funds and therefore must sell the real property security or refinance at maturity. A downturn in the real estate market, fluctuations in interest rates and the unavailability of mortgage funds could adversely affect the ability of borrowers to pay off or refinance their loans at maturity. If the real property security consists of undeveloped land, it may be more difficult for the borrower to sell or refinance its loan than if the real property security were improved real estate because undeveloped land is generally viewed as being a riskier and more speculative form of investment or real property security than improved real estate.

The real estate market may experience stagnation and declines in property values.

During the real estate market declines following the financial crisis, the most dramatic and well-publicized declines in property values (and the largest loan losses) occurred in the single-family residential sector; however, other property categories, including commercial and non-owner occupied residential, also experienced significant declines in value and a dramatic slow-down in sales. While many markets have stabilized, the recovery has been uneven and it is impossible to forecast how real estate and the economy will perform in the short or long term. If the market value of property securing Fund loans declines significantly or declines below the amount of a Fund loan on such property, borrowers may have difficulty paying or refinancing the loan or selling the property, causing losses to the Fund and investors. Moreover, any lack of real estate sales volume in the market may affect the General Partner's ability to accurately value the Fund's assets for the purpose of making withdrawal distributions, potentially resulting in excessive or deficient distributions to withdrawing Limited Partners.

Borrower's Financial Status

The Fund will evaluate the creditworthiness of a borrower based on a review of financial information provided by the borrower, and by making other inquiries (e.g., running a credit check). However this financial information and these inquiries will be given and made as of a particular point in time. The financial condition and/or credit status of the borrower could change subsequent to when this financial information and these inquiries are given and made.

If a loan is secured by hypothecated notes, the creditworthiness of the borrowers under the hypothecated notes may affect the value of the hypothecated notes as security. The Fund may not be able to obtain any credit information about the borrowers under hypothecated notes, or the amount of credit information that the Fund is able to obtain may be less than it would obtain in the course of evaluating the creditworthiness of the primary borrower. The Fund will look principally to the payment history under a hypothecated note in deciding whether or not to accept the hypothecated note as security.

The Fund may not be able to obtain credit information about a borrower under a note that the Fund is contemplating purchasing. As with hypothecated notes, the Fund will look principally to the payment history under the note in deciding whether or not to purchase the note.

If the Fund cannot collect all of the principal and interest due on its loans, the Fund's ability to earn a profit or to fund withdrawals will be impaired.

The Fund's liquidity is dependent on, among other things, payments by borrowers of principal and interest on Fund loans. The General Partner will continually monitor the delinquency status of the Fund's loan portfolio and promptly institute collection activities on delinquent accounts but these efforts may ultimately prove unsuccessful. Loan repayments are also likely to be affected by economic conditions in the real estate market. Any failure by the Fund, for any reason, to collect nearly all of the principal and interest on Fund loans will substantially impair the Fund's ability to operate successfully.

Fund loans may be subject to the additional risks related to due-on-encumbrance clauses

Most first deeds of trust contain "due-on-encumbrance" clauses permitting the holder to declare a default and accelerate a loan if the borrower executes an additional deed of trust on the security property in favor of a junior lienholder. In such cases, a second mortgage loan by the Fund would entitle the senior lienholder to commence foreclosure, which would jeopardize the Fund's investment. Such clauses are generally enforceable (except where the security property consists of 1-4 unit residential property). If the Fund makes a second mortgage loan, the General Partner generally will not seek the prior written consent of the senior lienholder. This could place the Fund's investment at risk if the senior lienholder declares an event of default.

If the Fund cannot collect all of the principal and interest due on its loans, the Fund's ability to earn a profit or to fund withdrawals may be impaired.

The Fund's liquidity is dependent on, among other things, payments of interest and loan principal payments received on Fund loans. The General Partner will continually monitor the delinquency status of the Fund loan portfolio and promptly institute collection activities on delinquent loan accounts but these efforts may ultimately prove unsuccessful. Loan principal payments are also likely to be affected by economic conditions in the real estate market. Any failure by the Fund, for any reason, to collect nearly all of the principal and interest on the Fund's loans may impair the Fund's ability to operate successfully and to make withdrawal distributions to requesting Limited Partners unless the net proceeds earned on the sale of the properties securing the loans are adequate to cover such amounts and can be realized on a timely basis.

The Fund will be operating in a highly competitive business.

Due to the nature of the Fund's business, its profitability will depend to a large degree upon the future availability of secured loans. The Fund will compete with other private money lenders, institutional lenders and others engaged in the mortgage lending business, including banks and savings institutions, many of which have greater financial resources and experience than the Fund. If these companies increase their marketing efforts to include the Fund's market of borrowers, or if additional competitors enter these markets, the Fund may be forced to reduce its interest rates and fees in order to maintain or expand market share. Any reduction in interest rates or fees charged could have an adverse impact on the Fund's liquidity and profitability.

A decline in the demand for, or increase in the risks of, real estate financing will impair the Fund's ability to make loans or could jeopardize repayment.

A variety of factors affect the demand for real estate financing, including, without limitation, economic cycles, demand for and availability of new development and construction, competitive pressures, the availability and cost of labor and materials, changes in costs associated with real estate ownership, changes in consumer preferences, demographic trends and the availability of mortgage financing. The Fund will be directly and materially affected by the same risks faced by borrowers as well as those inherent to the commercial and residential real estate development and construction industries. Recently, the U.S. experienced significant deterioration in certain sectors of the real estate, credit and mortgage markets. Any similar deterioration in the future may negatively impact the Fund's ability to make suitable real estate loans. Any reduction in the cash flows, income of or financial condition of commercial and residential real estate borrowers by reason of any of the aforementioned factors or others may significantly impair their ability to repay the Fund, which would increase the possibility that delinquencies would

occur, that the Fund would incur losses and that Limited Partners would lose some or all of their investment in the Units.

A decline in real estate values will impair the collateral for Fund loans.

Declining real estate values will increase the probability of a loss in the event of a borrower default on Fund loans. In the event of another significant deterioration of the real estate market, the value of the real estate or other collateral securing Fund loans may not, at any given time, be sufficient to satisfy the outstanding principal amount and accrued interest on such loans. If a borrower were to default, and if the collateral were insufficient, the Fund would suffer a loss and Members could lose some or all of their investment.

The Fund may lend to credit-impaired borrowers, which may make its investment portfolio susceptible to high levels of default risk.

The Fund may lend money to borrowers that are either unable or unwilling to obtain financing from traditional sources, such as commercial banks. Loans made to such individuals or entities may entail a high risk of delinquency and loss. Higher than anticipated delinquencies, foreclosures or losses will adversely affect the Fund's profitability and results of operations, and may result in a loss of some or all of the Limited Partners' investment in Units.

The purchase of a minority interest in a loan may affect the ability of the Fund to direct loan enforcement decisions.

The Fund may purchase undivided fractional interests in loans arranged by the General Partner on behalf of the Fund and other lenders rather than funding or acquiring an entire loan in the name of the Fund at closing. (See "Fund Management and Loan Servicing – Loan Brokerage and Servicing.") In such circumstances, the General Partner will service the loan as the agent of the Fund as well as the other purchasers of interests in the loan and could be subject to additional conflicts of interests in determining the appropriate actions to take on behalf of all of the lenders. (See "Conflicts of Interests"). Moreover, pursuant to the servicing agreement between the General Partner, the Fund and the other lenders on the loan, the General Partner's actions in connection with loan enforcement will be directed by lenders holding more than 50% of the total outstanding interests in the loan. Consequently, if the General Partner arranges for the Fund to purchase a minority interest in a loan, the Fund will not have the right to control the enforcement of its rights under the loan if such enforcement action conflicts with the decisions of the majority.

The Fund's business entails risks related to the ownership of real property.

When the Fund acquires any equity in real property by foreclosure or otherwise, the Fund is exposed to the risks of liability incident to real property ownership or tenancy. Owners of real property may be subject to liability for injury to persons and property occurring on the real property or in connection with the activity conducted thereon, as well as liability for failure to comply with governmental regulations.

The Fund may suffer from uninsured losses.

The General Partner will require comprehensive title, fire and casualty insurance (as applicable) on the properties securing the Fund's loans. At the General Partner's discretion, the General Partner may also require earthquake insurance, but will not generally do so. However, there are certain types of losses (generally of a catastrophic nature) which are either uninsurable or not economically insurable, such as losses due to war, floods, mudslides or other acts of God. Should any such disaster occur, or if casualty insurance is allowed to lapse through oversight, the Fund could suffer significant loan losses.

The industry in which the Fund will be active is not extensively regulated or supervised.

The lending and investment practices of the Fund are not supervised or regulated by any federal or state authority, except to the extent that the lending and brokerage activities of the General Partner and the Fund are

subject to supervision or regulation by the California Department of Real Estate or Department of Business Oversight. A return on a Limited Partner's investment is completely dependent upon the successful operation of the Fund's business. To the extent that the Fund does not operate successfully for any reason, its ability to return Limited Partners' investments and earn a profit is limited.

Lending laws and other laws and regulations applicable to the Fund's business may be amended in the future and affect the Fund's ability to operate.

The laws and regulations applicable to the Fund's lending and the offering of Units are subject to amendment by federal and state regulators and agencies. Changes in such laws and regulations that may result from future federal, state or municipal actions, judicial decisions, or interpretations of existing laws and regulations could affect the ability of the Fund to operate under its current business plan. (See "Fund Business and Lending.") Following the 2008-2009 financial crisis, a great deal of new federal and state legislation was enacted to regulate the mortgage lending business far more closely. To date, most such legislation has been primarily focused on owner-occupied residential mortgage loans made for personal, family or consumer purposes. The Fund will not make loans secured by owner-occupied residential properties and loans will only be made for commercial or business purposes; however, any new legislation affecting those types of loans could adversely affect the ability of the Fund to operate and be profitable in the future.

There are risks of government action if the General Partner or the Fund does not comply with all applicable laws and regulations.

While the General Partner will use its best efforts to comply with all local, state and federal lending regulations applicable to it and to the Fund, there is the possibility of governmental action to enforce any alleged violations of such lending laws which may result in legal fees, damage awards or fines and penalties.

The Fund may be responsible for environmental liabilities.

Under current federal and state law, the owner of real property contaminated with toxic or hazardous substances (including a mortgage lender that has acquired title through foreclosure) may be liable for all costs associated with any remedial action necessary to bring the property into compliance with applicable environmental laws and regulations. This liability may arise regardless of who caused the contamination or when it was caused.

The Fund does not and will not participate in the on-site management of any facility on the property in order to minimize the potential for liability for cleanup of any environmental contamination under applicable federal, state or local laws. There can be no assurance that the Fund would not incur full recourse liability for the entire cost of any such removal and cleanup, or that the cost of such removal and cleanup would not exceed the value of the property. In addition, the Fund could incur liability to tenants and other users of the affected property, or users of neighboring property, including liability for consequential damages. The Fund would also be exposed to risk of lost revenues during any cleanup, and to the risk of lower lease rates or decreased occupancy if the existence of such substances or sources on the property becomes known. If the Fund fails to remove the substances or sources and clean up the property, it is possible that federal, state and/or local environmental agencies could perform such removal and cleanup, and impose and subsequently foreclose liens on the property for the cost thereof. The Fund may find it difficult or impossible to sell the property prior to or following any such cleanup. Fund could be liable to the purchaser thereof if the General Partner knew or had reason to know that such substances or sources existed. In such case, the Fund could also be subject to the costs described above. If toxic or hazardous substances are present on real property, the owner may be responsible for the costs of removal or treatment of the substances. The owner may also incur liability to users of the property or users of neighboring property for bodily injury arising from exposure to such substances. If the Fund is required to incur such costs or satisfy such liabilities, this could have a material adverse effect on Fund profitability. Additionally, if a borrower is required to incur such costs or satisfy such liabilities, this could result in the borrower's inability to repay its loan from the Fund.

Even if the Fund does not foreclose on a contaminated site, the mere existence of hazardous substances on the property may depress the market value of the property such that the loan is no longer adequately secured.

A lender's best protection against environmental risks is to thoroughly inspect and investigate the property before making or investing in a loan. The General Partner may take some precautions to avoid environmental problems but is not required to engage in any specific environmental review of the property. Where deemed appropriate by the General Partner prior to making a loan, the Fund may engage a qualified environmental inspection firm to conduct an environmental review of the property (which may or may not include a "Phase I" or other level of environmental review). However, due to the nature of many types of environmental contamination, the possibility of the existence of toxic substances may not be apparent from a site visit, and the General Partner will generally not conduct any environmental review on properties not known or suspected to have environmental problems. Moreover, even if an environmental review is conducted, it may not reveal the extent or all types of contamination. As a result, it is possible that a security property could have toxic contamination not known to the General Partner at the time of making the subject loan.

The Fund may be subject to the additional risks associated with undeveloped land

The property that secures a loan, or the property that secures hypothecated notes, may consist of undeveloped land. For a number of reasons, undeveloped land is generally considered a riskier and more speculative form of security for a loan than is improved real estate. For example, before improvements can be constructed on undeveloped land the owner of the land may need to secure entitlements (e.g., zoning approvals, variances, and architectural approvals), undergo review of and obtain clearance on environmental impact issues (including issues concerning traffic, open space, school or transit impact, endangered species, wetlands, noise and air quality), obtain building permits, secure access and connections to necessary utilities, obtain construction financing, undertake and complete construction, and find buyers or tenants once the undeveloped land has been improved. Many of these risks are no longer at issue with respect to improved real estate.

Moreover, it is likely that undeveloped land will not generate any income that can be used to pay the interest and/or principal owing under the loan or real property taxes assessed against the undeveloped land. Accordingly, the borrower must have other sources of income in order to make these payments. If hypothecated notes are secured by undeveloped land, then the borrowers under such hypothecated notes must also have other sources of income in order to make their payments under the hypothecated notes.

Even if the owner of undeveloped land intends to hold the undeveloped land for investment, rather than developing the land itself, any prospective purchaser of the undeveloped land will take these risks into account when it sets the purchase price. Additionally, it can take up to several years or more to market and sell undeveloped land. Due to this potentially protracted time frame, it may be difficult for the owner of undeveloped land to sell the undeveloped land in time to pay off the loan at maturity. Finally, most lenders are more reluctant to lend against undeveloped land than against improved real estate due to the risks and other matters described above. Due to these considerations, it may be more difficult for a borrower to sell or refinance the real property security in order to repay the loan, or for the borrowers under hypothecated notes to sell or refinance in order to repay the hypothecated notes.

In acknowledgment of these increased risks, the Fund will not make a loan secured by undeveloped land that exceeds 50% of the current fair market value of the undeveloped land. This does not, however, eliminate the risks described above. It merely provides the Fund with a greater equity cushion should the borrower default under a loan, but the Fund would still suffer a loss if the property value falls by almost half, which can easily occur with undeveloped land.

The Fund will face an ongoing risk of litigation.

The General Partner will act in good faith and use reasonable judgment in selecting borrowers and making and managing the loans. However, as a lender, the General Partner and the Fund are exposed to the risk of litigation by a borrower for any allegations by the borrower (warranted or otherwise) regarding the terms of the loans or the actions or representations of the General Partner in making, managing or foreclosing on the loans. It is impossible for the General Partner to foresee what allegations may be brought by a specific borrower. The General Partner will use its best efforts to avoid litigation if, in the General Partner's judgment, the circumstances warrant an alternative resolution. If an allegation is brought and/or litigation is commenced against the Fund or the General Partner, the Fund will incur legal fees and costs to respond to the allegations and to defend any resulting litigation. If the Fund is required to incur such fees and costs, this could have an adverse effect on Fund profitability.

The Fund will not register as an "investment company" under the Investment Company Act of 1940.

The Fund will not be registered as an "investment company" under the Investment Company Act of 1940 (the "**ICA**") in reliance upon Sections 3(c)(5) thereof. Accordingly, Members will not receive the protections afforded by the ICA to investors in a registered investment company.

Risks Related to Cannabis Loans

The Fund may make loans secured by real estate utilized by Cannabis Operators including the growth, cultivation and distribution of cannabis or the manufacture or production of cannabis products. (See "Fund Business and Lending - Lending Standards and Policies.") The Manager believes Cannabis Loans present an opportunity to the Fund because despite over 29 states and the District of Columbia having some sort of legalized cannabis, traditional financing sources such as banks and other institutional lenders remain unable or unwilling to provide widespread financing to cannabis-related businesses or real estate investments. This reluctance is due to in large part to the continued illegality of cannabis under the federal Controlled Substances Act ("**CSA**") and the general uncertainty and perceived increased risks associated with such financing by federally chartered or FDIC insured financial institutions.

The lack of traditional financing has resulted in a greater demand for alternative financing and a willingness by Cannabis Operators to pay much higher rates for financing than borrowers in more traditional industries. The ability of borrowers to perform under a Cannabis Loan, however, will be highly susceptible to changes in the regulation, enforcement and perception of the medical and recreational cannabis industry both in California and nationally. Such Cannabis Operators will be operating in reliance upon state and local laws and regulations legalizing medical and recreational cannabis in California and potentially other states but in direct violation of the CSA. As a result, Cannabis Loans are subject to significant additional risks not associated with non-cannabis related investments. Some of these risks are summarized below.

Cannabis Operators may be subject to criminal indictment and/or forfeiture under the Controlled Substance Act.

The CSA currently lists cannabis as a Schedule 1 drug and makes it illegal under federal law to manufacture, distribute and dispense cannabis. Compliance with state laws legalizing such activities is not a defense to a charge or indictment under the CSA. Consequently, Cannabis Operators affiliated with the Fund loans either as borrowers or as tenants on properties securing Fund loans, may be subject to criminal prosecution for violating the CSA at any time, even if they comply will all state and local laws applicable to their operations. Additionally, if a violation of the CSA is found, all of the assets of the Cannabis Operator including the real property securing the applicable Fund loan could be subject to forfeiture. Federal prosecution or forfeiture actions against Cannabis Operators may therefore cause financial losses to the Fund and the Members and may result in the Fund incurring additional costs necessary to protect the Fund's interest in the security property.

As of the date of this Memorandum, the Manager is unaware of any actions being taken against lenders or their owners or managers under the CSA with respect to legally operating cannabis related businesses and the Manager currently believes such actions are unlikely. To date, however, there is no binding legal authority prohibiting such action by federal authorities. Consequently, there no authority that prohibits federal authorities from bringing federal charges of aiding and abetting or conspiring to violate the CSA against the Fund, the Manager or the Members for directly or indirectly financing or otherwise providing goods and services to cannabis related businesses.

Cannabis Operators may violate existing or future Cannabis laws enacted in California and other states causing losses or liability to the Fund or its Members.

While the Manager will only seek to make loans reliant upon the operations of reputable Cannabis Operators that are fully compliant with all state and local requirements, the Manager will not extensively inspect or audit the Cannabis Operators for such compliance and will rely on information from the Cannabis Operators or others in connection therewith. Moreover, state and local Cannabis laws and regulations are not uniform, and because the industry is new, they are constantly changing. Consequently, there is a risk that Cannabis Operators

may unintentionally (or intentionally) violate such requirements over the course of the loan which may, in turn, result in criminal or regulatory actions against such operators and potentially the Fund and its Members. Any such actions may result in the inability of the Cannabis Operator to perform in connection with the applicable loan and may require the Fund to incur additional expenses (including legal expenses) defending or responding to any claims raised against the Fund, the Manager or its Members in connection therewith.

Cannabis Operators and the Fund may be adversely affected by future laws and regulations made applicable to the industry.

The licensing and other regulatory requirements applicable to recreational (and even medical) cannabis businesses in California and other states are relatively new and vary from state to state and from county to county within each state. To the extent such laws and regulations are implemented in the future that materially affect the ability of Cannabis Operators to operate or to operate profitably, the Fund may suffer losses in connection with its Cannabis Loans which may affect overall performance.

Borrowers may not be able to secure bank accounts or receive other financial services.

Most banks and financial institutions refuse to provide financing and other services to cannabis related businesses due to the potential for criminal liability under the CSA (discussed above), and the Bank Secrecy Act, prohibiting money laundering by such institutions. The Financial Crimes Enforcement Network issued guidelines in 2014 that allow financial institutions to provide bank accounts to cannabis related businesses, and some state chartered banks do provide bank accounts and banking facilities for the industry. The Fund intends to limit its loans it makes to those where the applicable Cannabis Operator has established bank accounts; however, banks and other financial institutions continue to be reluctant to establish bank accounts for Cannabis-related businesses and it may be difficult for Cannabis Operators to obtain and maintain bank accounts (that are FDIC insured or at all) or other financial services which may affect their ability to operate profitably.

Cannabis related businesses face challenges in other federal institutions.

The federal illegality of cannabis means that other federal institutions, such as the United States Patent and Trademark Office, may be barred or limited in the way they can deal with cannabis related businesses. The United States Patent and Trademark Office may not issue trademarks or patents for cannabis goods which may affect the profitability of certain Cannabis Operators upon which Fund loans may rely. Bankruptcy courts may also not allow Cannabis businesses to file for bankruptcy to reorganize their business and liquidate their assets in order to avoid tax liability; however, the Fund currently does not believe this limitation will be a significant issue for the performance of Fund loans.

Cannabis Operators may be required to handle greater amounts of cash and may be subject to a greater risk of theft.

The Fund intends to require all Cannabis Operators to have bank accounts and the ability to make payments by means other than cash. However, as a result of financial institutions' initial and continuing reluctance to provide bank accounts and other services to cannabis related businesses (discussed above), Cannabis Operators are more likely to operate on a cash basis with respect to many facets of their operations, which creates unpredictability, issues with company management, and public safety issues related retaining a significant amount of cash on hand. Many Cannabis Operators combat their risk of theft by hiring costly private security services. The increased risks associated with businesses dealing in cash, and the higher costs associated with protecting large amounts of cash on site may affect the performance of Cannabis Loans.

Tax limitations of IRC Section 280E will effect Cannabis Operator profitability.

Internal Revenue Code Section 280E prohibits businesses that engage in "trafficking in controlled substances" (as defined by the CSA) from deducting their ordinary and necessary business expenses. As a result, Cannabis Operators are subject to a higher federal tax rate than similar companies doing business in other industries. Increased taxes paid by Cannabis Operators will directly reduce their profitability and may affect their ability to perform on their obligations owed to the Fund or a borrower landlord (if applicable).

The Fund will be subject to competition which may significantly increase if cannabis is legalized or accepted at the federal level.

Even though medical and recreational cannabis is still considered an emerging industry, finding quality and reputable Cannabis related investments is, and will continue to be, competitive as the industry continues to grow. Moreover, increased competition within the industry may result in lower cannabis prices at the retail and wholesale level affecting the profitability of the industry as a whole. Furthermore, if cannabis is declassified as a Schedule 1 narcotic under the CSA or other federal actions are taken to ease the restrictions applicable to cannabis, banks and other institutional lenders may enter the market lowering the rates and returns previously available from industry participants. Such increased competition could significantly affect the profitability of Cannabis Loans causing any increased Fund performances from cannabis loans, if any, to be reduced or eliminated in later periods.

Increased consumer and worker protections in the cannabis industry may affect cannabis loan performance.

Consumer and worker protections (i.e. working conditions, labeling, and products liability) in the cannabis industry have lagged behind other businesses, but federal and state scrutiny will only increase as the recreational cannabis industry is established and matures. Increased regulations (and costs of compliance with the regulations), combined with the lack of best practices for dealing with such claims and general lack of product liability insurance, leads to increased risk for Cannabis Operators and investors in the cannabis industry alike.

Risks Related to the General Partner

The loans in which the proceeds of this offering will be invested have not yet been identified, and Limited Partners will have no opportunity to review potential Fund loans. The General Partner will make all decisions with respect to the management of the Fund, including the determination as to what loans to make or purchase. Additionally, the Fund is dependent to a substantial degree on the continued services of the General Partner and its principals. In the event of the dissolution of the General Partner or the death, retirement or other incapacity of one or more of the key principals listed in the "General Partner and Its Affiliates" section hereof, the business and operations of the Fund may be adversely affected.

The Limited Partners will not have the ability to control the day to day operations of the Fund or to control the General Partner. It will be difficult to remove the General Partner.

The Limited Partners will not have a voice in the management decisions of the Fund and can exercise only a very limited amount of control over the General Partner. The Limited Partners have only the voting rights set forth in the Limited Partnership Agreement or required by California law. A vote of a majority interests of the Limited Partners (a "**Partner Majority**") is required to remove the General Partner. Because there may be a significant number of Limited Partners holding Units, and Limited Partners may have differing opinions with respect to a course of action to take respecting the Fund, it may be difficult, time consuming and costly to solicit adequate votes to remove the General Partner.

The General Partner is not required to devote its full time to the business of the Fund.

The General Partner is not required to devote its full time to the Fund's affairs, but only such time as the affairs of the Fund may reasonably require. Each of the principals of the General Partner has ongoing businesses outside of and in addition to the business of the Fund, which will compete for the General Partner's time and resources.

The Fund has not yet identified any loans which it will make and investors are relying on the General Partner to review and make all Fund investment decisions.

The loans in which the proceeds of this offering will be invested have not yet been identified, and Limited Partners will have no opportunity to review potential Fund loans prior to acquisition. The General Partner will make all decisions with respect to the management of the Fund, including the determination as to what loans to make or purchase. Additionally, the Fund is dependent to a substantial degree on the continued services of the General

Partner or certain of its principals. In the event of the dissolution of the General Partner or the death, retirement or other incapacity of one or more of the principals of the General Partner profiled in the "The General Partner and Its Affiliates" section of this Memorandum, the business and operations of the Fund may be adversely affected.

The General Partner is not registered or certified as an investment advisor and will not select mortgage loan investment based upon the interests of any particular Limited Partner.

The General Partner is not registered or certified as an investment advisor under the Investment Advisors Act of 1940 (the "**IAA**") or the California Corporate Securities Law of 1968 (the "**Law**") based upon the expectation that it is or will be exempt from such requirements. Accordingly, Limited Partners will not receive the benefits of any protections that might result from such certification/registration. Moreover, investment decisions made by the General Partner will be made based upon the investment objectives of the Fund as a whole rather than those of any particular Limited Partner or group of Limited Partners. Investors should consult their own investment advisors or other investment professionals with respect to the suitability of an investment in the Fund and its underlying portfolio of mortgage loans as it relates to their own personal financial situation and investment risk profile.

The General Partner is subject to conflicts of interest.

There are several areas in which the interests of the General Partner will conflict with those of the Fund, which should be carefully considered. (See "Conflicts of Interest.")

Limited Partners of the Fund will have no claim to the fees payable to the General Partner.

The Fund and its borrowers will pay certain fees and compensation to the General Partner. (See "Compensation to General Partner.") These fees will be owed as incurred. Even if the Fund is unsuccessful in generating sufficient income to cover its operations, it will have no claim against the General Partner for a refund of such fees.

Risks Related to Ownership of the Units

There is no market for the Units, and transfer of the Units could be severely restricted by law or market conditions.

There is no public market for the Units and none is expected to develop in the future. Even if a potential buyer could be found, the transferability of Units is also restricted by the provisions of the Securities Act of 1933, as amended, and Rule 144 thereunder, and by the provisions of the Limited Partnership Agreement. (See "Terms of the Offering – Restrictions on Transfer.") Any sale, transfer or encumbrance of Units also requires the prior written consent of the General Partner, which may be withheld in its sole discretion. Furthermore, Limited Partners will have only limited rights to redeem Units or withdraw from the Fund or to otherwise obtain the return of their invested capital. Therefore, all purchasers of Units must be capable of bearing the economic risks of this investment with the understanding that their interest in the Fund may not be liquidated by resale, and should expect to hold their Units for an undetermined period of time, and should understand that such inability to sell or withdraw "on demand" will subject an investment in Units to any losses the Fund may experience during such period.

Limited Partners will be subject to actions taken by a Partner Majority.

The Limited Partners have only the voting rights set forth in the Limited Partnership Agreement or required by California law and a vote of a Partner Majority is required to exercise such rights. Consequently, each Limited Partner will have no right to require or approve any action of the Fund or the General Partner that conflicts with the will of the Partner Majority and it may be difficult, time consuming and costly to solicit adequate votes to take any action because there may be a significant number of Limited Partners holding Units, and Limited Partners may have differing opinions and perspectives with respect to a course of action to take.

If the Fund cannot collect all of the principal and interest due on its loans, the Fund's ability to earn a profit or to fund withdrawals will be impaired.

The Fund's liquidity is dependent on, among other things, payments by borrowers of principal and interest on Fund loans. The General Partner will continually monitor the delinquency status of the Fund's loan portfolio and promptly institute collection activities on delinquent accounts but these efforts may ultimately prove unsuccessful. Loan repayments are also likely to be affected by economic conditions in the real estate market. The failure of the Fund to collect nearly all of the principal and interest on Fund loans will affect the Fund's profitability and may substantially impair the Fund's ability to operate successfully.

The Fund will be taxed as a Partnership and the Limited Partners will be taxed as "Partners."

The Fund will elect to be treated as a partnership for federal income tax purposes. Any favorable federal tax treatment presently available with respect to the Fund could be affected by any changes in tax laws that may result through future Congressional action, tax court or other judicial decisions, or interpretations of the Internal Revenue Service. IN VIEW OF THE FOREGOING, PROSPECTIVE LIMITED PARTNERS ARE URGED TO REVIEW THE "FEDERAL INCOME TAX CONSEQUENCES" SECTION CAREFULLY AND TO CONSULT THEIR OWN TAX COUNSEL.

The Units are not insured or guaranteed by any government agency or public entity or third party.

The Units are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) or any other governmental agency or any other public or private entity, in contrast to certificates of deposit or accounts offered by banks, savings and loan associations or credit unions. Limited Partners in the Fund will be dependent on the General Partner's ability to effectively manage the Fund's business to generate sufficient cash flow for the repayment of Limited Partners' capital and the generation of any profit. If Fund cash flow proves inadequate, investors could lose part or all of their investments.

The timing of Fund loss recognition (if any) will be based on various factors, and losses will be allocated to Investors who purchased Units before the loss is recognized for accounting purposes even though the loss occurred earlier.

The Fund will accrue income over the course of a month (or other accounting period) and such income is allocated to Limited Partner's capital accounts over the course of that period. However, losses tend to be identified and recognized as the result of specific events, such as the placement of a loan on non-accrual status, and thus losses are allocated less frequently and at the end of an accounting period. As with most other investments, a purchaser may purchase Interests before a loss has been recognized for accounting purposes, but once recognized, such loss will be allocated to the investor's Interests as well as to the other Members of the Fund on the loss recognition date. In addition, under certain circumstances the General Partner may be aware that a loss could occur, such as upon a missed payment by a borrower, but the General Partner will not immediately recognize a loss because the Fund's policies may not require a default recognition until several payments are missed (for example, to allow a borrower time to cure the missed payments). Therefore, investors should be aware that if any actual or potential losses exist before they purchase Interests they may be recognized afterwards and could be allocated to their capital accounts.

The Fund is not required to set aside any funds to satisfy requests for withdrawals or redemptions from the Fund. A new investor's subscription may be used in whole or in part to fund withdrawals or redemptions.

The General Partner will not create or contribute funds to a separate account in order to fund requests for withdrawal from the Fund and redemption of an investor's Units. Because funds are not set aside periodically to fund such withdrawals, Limited Partners must rely on cash flow from operations and funds from the sale of Units to satisfy withdrawal requests. Money received from the sale of Units may be used in whole or in part, at the discretion of the General Partner, to fund such withdrawal and redemption requests. To the extent cash flow from operations and the sale of Units is not sufficient to fund withdrawal requests received by the Fund at any time, an Unit which is unredeemed will remain subject to Fund operations, which may include Fund losses. Furthermore, an investor may be admitted to the Fund at a time when there is a waiting list to withdraw, making it likely that such investor will not

be able to withdraw quickly upon being admitted and therefore will remain subject to the Fund's operating results, which may include losses.

Fluctuations in interest rates pose risks to the Fund's business.

Mortgage interest rates are subject to abrupt and substantial fluctuations, but the right of a Fund Limited Partner to withdraw capital from the Fund is subject to substantial restriction and Units are a relatively illiquid investment. If prevailing interest rates rise above the average interest rate being earned by the Fund's loan portfolio, investors may wish to liquidate their investment in order to take advantage of higher returns available from other investments but may be unable to do so.

The Limited Partnership Agreement does not contain provisions to protect investment in the Units.

The Units do not have the benefit of extensive protective provisions in the Limited Partnership Agreement. The provisions of the Limited Partnership Agreement are not designed to protect a Limited Partner's investment if there is a material adverse change in the Fund's financial condition or results of operations. For example, a Limited Partner's ability to withdraw from the Fund is limited. Therefore, the Limited Partnership Agreement provides very little protection of Limited Partners' investment.

Investment delays carry risk.

There may be a delay between the time a subscription is submitted by a prospective investors and the time the Fund accepts such subscription and the investor becomes a Limited Partner. (See "Terms of the Offering – Subscription Procedures.") During such time, investors will not earn interest on their investment. There may also be a delay between the Fund's receipt of capital into the operating account (from new subscriptions, loan payoffs or otherwise) and the funding of a loan with such capital. During these periods of delay, the proceeds may be invested in interest bearing accounts, short-term certificates of deposit, money-market funds or other liquid assets which will not yield as high a return as the anticipated return to be earned on Fund loans. The length of these delays may adversely affect the overall investment return to Limited Partners.

Limited Partners may be obligated to return certain impermissible distributions.

Limited Partners are not required to contribute any additional capital to the Fund beyond their investment to pay any debts of the Fund. Under California law, however, limited partnerships such as the Fund are prohibited from making distributions to their Limited Partners if following such distribution the limited liability company would be unable to pay its debts or following such distribution the company's total liabilities would exceed its total assets. Limited Partners receiving such distributions may be obligated to return the distribution but only if such Limited Partner had actual knowledge of the impropriety of the distribution at the time it was made. Consequently, to the extent that a return of a Limited Partner's capital contribution is deemed a distribution, a Limited Partner may be required under certain circumstances to return such distributions to the Fund to discharge the Fund's liabilities to creditors who extended credit to the Fund during the period such capital contribution was held by the Fund.

The Units are risky and speculative investments and if you cannot afford to lose your entire investment, you shouldn't invest.

Prospective investors should be aware that the Units are risky and speculative investments suitable only for investors of adequate financial means. If you cannot afford to lose your entire investment, you should not invest in the Units. If the Fund accepts an investment, you should not assume that the Units are a suitable and appropriate investment for you.

There is no guaranty that monthly distributions of Fund income will be made. Investors that will sustain substantial economic hardship in the absence of monthly income distributions from the Fund should not invest.

An investor in the Fund may, upon purchasing Units, elect to have his or her share of Fund earnings distributed on a monthly basis; however, neither the amount of, nor the right to, such monthly distributions is

guaranteed. Investors purchasing Units are only entitled to distributions equal to their pro-rata share of monthly net income to the extent cash is available for distribution. If the Fund is unable to generate sufficient accrued cash in any given month to distribute to electing Limited Partners no distributions will be made. (See "Summary of Limited Partnership Agreement – Cash Distributions.") Consequently, investors that will rely on the monthly income received from the Fund to meet their monthly expenses or who will suffer substantial economic hardship in the absence of such income should not invest.

Investors have not been independently represented in the formation of the Fund.

Investors in the Fund have not been represented by independent counsel in its organization, and the attorneys who have performed services for the Fund have also represented the General Partner. Thus, conflicts of interest between the Fund and the General Partner may not have been addressed as vigorously as in an arms-length transaction. (See "Conflicts of Interest.")

FIDUCIARY RESPONSIBILITY OF THE GENERAL PARTNER

A general partner is accountable to a partnership as a fiduciary, which means that a general partner is required to exercise good faith and integrity with respect to partnership affairs. This is in addition to the several duties and obligations of, and limitations on, the General Partner set forth in the Limited Partnership Agreement. Upon request, the General Partner must give to any Limited Partner or his legal representative, true and full information concerning all Fund affairs and each Limited Partner or his legal representative may inspect and copy the Fund books and records at any time during normal business hours.

The Limited Partnership Agreement provides that the Fund shall indemnify the General Partner and its shareholders, officers, directors, employees and agents for any liability or loss (including attorneys' fees, which shall be paid as incurred), suffered by such party, and shall hold the General Partner harmless for any loss or liability suffered by the Fund, so long as a General Partner determined, in good faith, that the course of conduct which caused the loss or liability was in the best interests of the Fund, and such loss or liability did not result from the gross negligence or gross misconduct of the General Partner. Any such indemnification shall only be recoverable out of the assets of the Fund and not from Limited Partners. Notwithstanding the foregoing, the General Partner nor any of its Affiliates shall be indemnified for any liability imposed by judgment (including costs and attorneys' fees) arising from or out of a violation of state or federal securities laws associated with the offer and sale of Units. However, indemnification will be available for settlements and related expenses of lawsuits alleging securities law violations if a court approves the settlement and indemnification, and also for expenses incurred in successfully defending such lawsuits if a court approves such indemnification. Such indemnification shall survive the termination of the Limited Partnership Agreement.

Limited Partners may have a more limited right of action than they would have absent these provisions in the Limited Partnership Agreement. A successful indemnification of the General Partner could deplete the assets of the Fund. Limited Partners who believe that a breach of the General Partner's fiduciary duty has occurred should consult with their own legal counsel.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974 ("**ERISA**") contains strict fiduciary responsibility rules governing the actions of "fiduciaries" of employee benefit plans. It is anticipated that some Limited Partners will be corporate pension or profit-sharing plans and Individual Retirement Accounts, or other employee benefit plans that are subject to ERISA. In any such case, the person making the investment decision concerning the purchase of Units will be a "fiduciary" of such plan and will be required to conform to ERISA's fiduciary responsibility rules. Persons making investment decisions for employee benefit plans (i.e., "fiduciaries") must discharge their duties with the care, skill and prudence which a prudent man familiar with such matters would exercise in like circumstances. In evaluating whether the purchase of Units is a "prudent" investment under this rule, fiduciaries should consider all of the risk factors set forth above. Fiduciaries should also carefully consider the possibility and consequences of unrelated business taxable income (see "Federal Income Tax Consequences."), as well as the percentage of plan assets which will be invested in the Fund insofar as the diversification requirements of ERISA are concerned. An investment in the Fund is relatively illiquid, and fiduciaries must not rely on an ability to

convert an investment in the Fund into cash in order to meet liabilities to plan participants who may be entitled to distributions. DUE TO THE COMPLEX NATURE OF ERISA, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT HIS OWN TAX ADVISOR OR PENSION CONSULTANT TO DETERMINE THE APPLICATION OF ERISA TO HIS OR HER PROSPECTIVE INVESTMENT.

The Fund will limit subscriptions for Units from ERISA plan investors such that, immediately after each sale of Units, ERISA plan investors will hold less than 25% of the total outstanding partnership interests in the Fund.

Fiduciaries of plans subject to ERISA are required to determine annually the fair market value of the assets of such plans as of the close of any such plan's fiscal year. Although the General Partner will provide annually upon the written request of a Limited Partner an estimate of the value of the Units based upon, among other things, outstanding mortgage investments, it may not be possible to value the Units adequately from year to year, because there will be no market for them.

CONFLICTS OF INTEREST

The following is a list of the important areas in which the interests of the General Partner will conflict with those of the Fund. The Limited Partner must rely on the general fiduciary standards which apply to a general partner of a limited partnership to prevent unfairness by the General Partner and/or its Affiliates in a transaction with the Fund. (See "Fiduciary Responsibility of the General Partner.") Except as may arise in the normal course of the relationship, there are no transactions presently contemplated between the Fund and its General Partner or Affiliates other than those listed below.

Loan Brokerage Commissions

None of the compensation set forth under "Compensation to the General Partner" was determined by arm's length negotiations. The loan brokerage commissions (or "points") charged to borrowers by General Partner will average approximately 2.5% of the principal amount of each loan, but may range as high as 6%. Any increase in such charges will have a direct, adverse effect upon the interest rates that borrowers will be willing to pay the Fund, thus reducing the overall rate of return to Limited Partners. Conversely, if the General Partner reduces the loan brokerage commissions charged by the General Partner, a higher rate of return might be obtained for the Fund and the Limited Partners. This conflict of interest will exist in connection with every Fund loan transaction, and Limited Partners must rely upon the fiduciary duties of the General Partner to protect their interests. In an effort to partially resolve this conflict, the General Partner has agreed that the loan brokerage commissions to be received by it in connection with each loan arranged for the Fund will not exceed 6% of the total loan amount.

The General Partner will earn the largest portion of its compensation from these commissions (or "points") that it collects at loan closing, which are not affected by whether the Fund's loan proves to be a good investment. Therefore, the General Partner may be motivated to close loans using Fund funds that are risky or otherwise not in the best interests of the Fund, in order to earn its loan points. Limited Partners must rely on the fiduciary duties and good faith of the General Partner to protect their interests in this regard.

The General Partner has reserved the right to retain the services of other firms to perform the brokerage services, loan servicing and other activities in connection with the Fund's loan portfolio that are described in this Memorandum . Any such other firms may be affiliated with the General Partner.

Other Funds or Businesses

The General Partner's President, George Blackburne, III, sponsored Fund I and other affiliate lending businesses and, in the future, Mr. Blackburne or the General Partner may sponsor other limited partnerships or other entities whose investment objectives are similar to that of the Fund. The General Partner also provides loan brokerage services to Fund I and other investors besides the Fund. It is possible that these other partnerships and investors will have funds to invest at the same time as the Fund. There will then exist conflicts of interest on the part of the General Partner between the Fund and the other partnerships or investors with which it is affiliated at such time. The General Partner will decide which loans are appropriate for funding by the Fund or by such other

partnerships and investors after consideration of all relevant factors, including the size of the loan, portfolio diversification, and amount of uninvested funds.

The General Partner and its Affiliates may engage for their own account, or for the account of others, in other business ventures, similar to that of the Fund or otherwise, and neither the Fund nor any Limited Partner shall be entitled to any interest therein.

The Fund will not have independent management and it will rely on the General Partner and its Affiliates, shareholders, officers, directors, employees and agents for the operation of the Fund. The General Partner will devote only so much time to the business and affairs of the Fund as is reasonably required. The General Partner will have conflicts of interest in allocating management time, services and functions between the existing partnership, the Fund, and any future partnerships which it may organize as well as other business ventures in which it may be involved. The General Partner believes it has sufficient staff to be fully capable of discharging its responsibilities to all such entities.

Lack of Independent Legal Representation

The Fund has not been represented by independent legal counsel to date. The use by the General Partner and the Fund of the same counsel in the preparation of this Memorandum and the organization of the Fund has resulted in the lack of independent review. Prospective investors must rely on their own legal counsel for legal advice in connection with this investment.

Sale of Defaulted Loans or Real Estate Owned to Affiliates

In the event a Fund loan goes into default or the Fund becomes the owner of any real property by reason of foreclosure on a Fund loan, the General Partner's first priority will be to arrange the sale of the loan or property for a price that will permit the Fund to recover the full amount of its invested capital plus accrued but unpaid interest and other charges, or so much thereof as can reasonably be obtained in light of current market conditions. In order to facilitate such a sale, the General Partner may arrange a sale to persons or entities controlled by or affiliated with the General Partner (e.g., to another entity formed by the General Partner or its affiliates). The General Partner will be subject to conflicts of interest in arranging such sales because it will represent both parties to the transaction. For example, the Fund and the potential buyer will have conflicting interests in determining the purchase price and other terms and conditions of sale. The General Partner's decision will not be subject to review by any outside parties.

The General Partner shall undertake to resolve these conflicts by setting a purchase price for each defaulted loan or property that is not less than any of the following: (i) the independently appraised value of such loan or property, if any, at the time of sale; (ii) the amount of any third party offer already received, if any; and (iii) the total amount of the Fund's investment in the property. The Fund's investment is deemed to include, without limitation, the following: the unpaid principal amount of the Fund's loan; accrued unpaid interest through the date of foreclosure, if any; expenditures made to protect the Fund's interest in the property such as payments to senior lienholders and for insurance and taxes; all costs of foreclosure and other loan enforcement actions (including attorney's fees); and any advances made by the General Partner on behalf of the Fund for any of the foregoing. A portion of the purchase price may be paid by the affiliate executing a promissory note in favor of the Fund, secured by a deed of trust on the property being sold. The total loan-to-value ratio for the property (including the Fund's note and any senior liens) will not exceed 80% of the purchase price of the property, and the note will otherwise contain terms and conditions comparable to those that would be contained in notes executed by third parties.

FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain relevant federal income tax considerations resulting from an investment in the Fund, but does not purport to cover all of the potential tax considerations applicable to any specific purchaser. Prospective investors are urged to consult with and rely upon their own tax advisors for advice on these and other tax matters with specific reference to their own tax situation and potential changes in applicable law.

Taxation of Undistributed Fund Income (Individual Investors)

Under the laws pertaining to federal income taxation of partnerships, no federal income tax is paid by the Fund as an entity. Each individual partner reports on his federal income tax return his distributive share of Fund income, gains, losses, deductions and credits, whether or not any actual distribution is made to such partner during a taxable year. Each individual partner may deduct his distributive share of Fund losses, if any, to the extent of the tax basis of his Units at the end of the Fund year in which the losses occurred. The characterization of an item of profit or loss will usually be the same for the partner as it was for the Fund. Since individual partners will be required to include Fund income in their personal income without regard to whether there are distributions of Fund income, such investors will become liable for federal and state income taxes on Fund income even though they have received no cash distributions from the Fund with which to pay such taxes.

Distributions of Income

To the extent cash distributions exceed the current and accumulated earnings and profits of the Fund, they will constitute a return of capital, and each Limited Partner will be required to reduce the tax basis of his Units by the amount of such distributions and to use such adjusted basis in computing gain or loss, if any, realized upon the sale of Units. Such distributions will not be taxable to Limited Partners as ordinary income or capital gain until there is no remaining tax basis, and, thereafter, will be taxable as gain from the sale or exchange of the Units.

Property Held Primarily for Sale; Potential Dealer Status

The Fund has been organized to invest in loans primarily secured by deeds of trust on real property. However, if the Fund were at any time deemed for federal tax purposes to be holding one or more Fund loans primarily for sale to customers in the ordinary course of business (a "**dealer**"), any gain or loss realized upon the disposition of such loans would be taxable as ordinary gain or loss rather than as capital gain or loss. The federal income tax rates for ordinary income are higher than those for capital gains. In addition, income from sales of loans to customers in the ordinary course of business would also constitute unrelated business taxable income to any investors which are tax-exempt entities. Under existing law, whether or not real property is held primarily for sale to customers in the ordinary course of business must be determined from all the relevant facts and circumstances. The Fund intends to make and hold the Fund loans for investment purposes only, and to dispose of Fund loans, by sale or otherwise, at the discretion of the General Partner and as consistent with the Fund's investment objectives. It is possible that, in so doing, the Fund will be treated as a "dealer" in mortgage loans, and that profits realized from such sales will be considered unrelated business taxable income to otherwise tax-exempt investors in the Fund.

Tax Returns

Annually, the Fund will provide the Limited Partners (but not to assignees of Limited Partners unless they become substituted Limited Partners) sufficient information from the Fund's informational tax return for the Limited Partners to prepare their individual federal, state and local tax returns. The Fund's informational tax returns will be prepared by certified public accountants selected by the General Partner.

Trade or Business Income

The Fund will report its income as being derived from the trade or business or mortgage lending, not as "portfolio income." The General Partner believes this is the proper characterization, but there can be no assurance that it will not be challenged by the Internal Revenue Service. If the Fund is deemed to be engaged in the trade or business of lending money, its income allocable to that business will generally be characterized as nonpassive income, against which passive losses from other sources may not be offset. This is true even though its net losses allocable to that activity (or that portion of Limited Partners' loss on the sale of a unit that is allocable to the Fund's mortgage lending business) will be treated as passive activity losses. If the Fund is not considered engaged in a trade or business of lending money, then income and loss from its mortgage lending activities will be considered portfolio income and loss. In either case, Limited Partners will not be permitted to offset passive losses from other activities against Limited Partners' share of that portion of income. Under Section 469 of the Code, the Fund's income will not be passive income against which passive losses from other sources may be offset.

Unrelated Business Taxable Income

Units may be offered and sold to certain tax exempt entities (such as qualified pension or profit sharing plans) that otherwise meet the investor suitability standards described elsewhere in this Memorandum . (See "Investor Suitability Standards.") Such tax exempt entities generally do not pay federal income taxes on their income unless they are engaged in a business which generates "unrelated business taxable income," as that term is defined by Section 513 of the Code. Under the Code, tax exempt purchasers of Units may be deemed to be engaged in an unrelated trade or business by reason of interest income earned by the Fund. Interest income (which will constitute the primary source of Fund income) does not constitute an item of unrelated business taxable income, except to the extent it is derived from "debt-financed property," however, since the Fund will not utilize borrowed funds for the purpose of making or investing in loans, interest earned on Fund loans should not constitute unrelated business taxable income and investors that are otherwise exempt from federal and state income taxes should not realize interest income earned by the Fund.

Rents from real property and gains from the sale or exchange of property are also excluded from unrelated business taxable income, unless the property is held primarily for sale to customers or is acquired or leased in certain manners described in Section 514(c)(9) of the Code. Therefore, unrelated business taxable income may also be generated if the Fund operates or sells at a profit any property that has been acquired through foreclosure on a Fund loan, but only if such property (1) is deemed to be held primarily for sale to customers, or (2) is acquired from or leased to a person who is related to a tax-exempt investor in the Fund.

The trustee of any trust that purchases Units in the Fund should consult with his or her tax advisors regarding the requirements for exemption from federal income taxation and the consequences of failing to meet such requirements, in addition to carefully considering the fiduciary responsibilities of a trustee with respect to such matters as investment diversification and the prudence of particular investments.

CERTAIN LEGAL ASPECTS OF PARTNERSHIP LOANS

The Fund's loans will be secured by either a mortgage or a deed of trust or by hypothecated notes that are themselves secured by a mortgage or deed of trust. In some states, a mortgage is the form of security instrument used to secure a real property loan, while in other states a deed of trust is the form of security instrument used to secure a real property loan. A mortgage has two parties: a borrower called the "mortgagor" and the lender called the "mortgagee." The mortgagor gives the mortgagee a lien on the property as security for the loan or, in some states, the mortgagor conveys legal title of the property to the mortgagee until the loan is repaid but retains equitable title and the right of possession to the property so long as the loan is not in default. A deed of trust has three parties: a borrower-grantor called the "trustor," a third-party grantee called the "trustee," and a lender-creditor called the "beneficiary." The trustor grants the property, irrevocably until the debt is paid, "in trust, with power of sale" to the trustee to secure payment of the obligation. The trustee's authority is governed by law, the express provisions of the deed of trust and the directions of the beneficiary.

Foreclosure

The manner in which the Fund will enforce its rights under a mortgage or deed of trust or with respect to hypothecated notes, will depend on the laws of the state in which the property is situated. Depending on local laws, a lender may be able to enforce its mortgage or deed of trust by judicial foreclosure or by non-judicial foreclosure through the exercise of a power of sale. Local laws will also dictate, among other things, the amount of time and costs associated with a judicial or non-judicial foreclosure sale, whether or not a lender would be entitled to recover a deficiency judgment (i.e., the resulting shortfall if the proceeds from the sale of the property are not sufficient to pay the debt) from the borrower, either concurrently with or following a judicial or non-judicial sale, whether there are limits as to the amount of this deficiency judgment, and whether the borrower would have a right to redeem the property following a judicial or non-judicial sale.

A judicial foreclosure is a public sale of the property conducted under an order of the court of the state in which the property is located, with the sales proceeds being applied to satisfy the underlying debt. A judicial foreclosure is subject to most of the delays and expenses of other lawsuits and can take up to several years to complete, depending on how busy the local courts are.

In contrast, a non-judicial foreclosure is a private sale of the property conducted directly by the mortgagee, in the case of a mortgage, or the trustee, in the case of a deed of trust, following the giving of appropriate notice and the expiration of appropriate cure periods. It is generally cheaper and quicker to conduct a non-judicial foreclosure than to conduct a judicial foreclosure.

A lender would typically undertake a judicial foreclosure when the lender seeks to obtain a deficiency judgment. In some states, a lender is not entitled to recover a deficiency judgment if the lender forecloses non-judicially. Some states also limit the amount of deficiency that can be recovered from a borrower following a judicial foreclosure sale to the difference between the amount of the debt owing to the lender and the higher of (i) the successful sales price bid at the foreclosure sale, or (ii) the fair market value of the property at the time of foreclosure (a so-called "fair value limitation"). Moreover, some states provide that a borrower and/or junior lienholder has a right to redeem the property for a period of time following a judicial foreclosure sale by paying to the successful bidder an amount equal to the successful sales price bid at the foreclosure sale and the costs of the foreclosure sale. This right of redemption can depress the amount bid at a judicial foreclosure sale because the successful bidder would have to take the property subject to the borrower's and/or the junior lienholder's right of redemption.

If a lender elects to undertake a non-judicial foreclosure sale it would, in many states, forego the right to obtain a deficiency judgment. However, real property that is sold through a non-judicial foreclosure sale is, in many states, not subject to a right of redemption.

In summary, whether or not a lender would pursue a judicial or a non-judicial foreclosure, and the extent and nature of other remedies available to a lender against a borrower in connection with a real property secured loan, will depend on the laws of the state in which the real property is located. If a borrower were to default under a loan, General Partner, as the loan servicer, would evaluate the applicable laws and consider the enforcement practices typically undertaken by commercial lenders in the state in which the property is located before commencing enforcement actions.

Hypothecated Notes

Hypothecated notes are considered personal property security. As such, the manner in which the Fund would enforce its security interest in hypothecated notes following a loan default would be governed by the terms of a security agreement to be given by the borrower in favor of the Fund, as well as by the Uniform Commercial Code and other laws applicable in the governing state. In many states, a secured creditor may sell the personal property security by providing notices to the debtor and perhaps to other secured creditors of the debtor and then to sell the personal property security at a public or private sale. Generally, the secured party must act in good faith and in a commercially reasonable manner in noticing and conducting this sale. Depending on the laws of the governing state, the debtor may be entitled to reinstate the debt by paying the delinquent amount prior to the sale, and the secured party may or may not be entitled to purchase at the sale.

If a secured creditor fails to comply with the laws that govern the sale of personal property security, the secured creditor's ability to obtain a deficiency judgment (i.e., the deficiency that results if the proceeds from the sale of the personal property collateral are insufficient to cover the debt) may be limited, impaired or forfeited, a court may enjoin the sale, and/or the secured party may be liable to the debtor for the damages that it suffered due to the secured party's failure to comply, which may include a claim for conversion.

Depending on the laws of the governing state, the secured party may be entitled to retain the personal property security in satisfaction of the debt by giving notice to the debtor and perhaps other parties of its intent to do so. If such parties fail to object within a prescribed period of time, the secured party can retain the personal property security in satisfaction of the debt. If such parties object to this course of action, the secured party will be obligated to conduct a public or private sale.

Generally, the proceeds from a sale of personal property collateral are applied first, against the costs of the sale, then to the senior secured claim, then to any junior secured claim, and the balance to the debtor.

Other Loan Enforcement Issues

Other matters, such as litigation instituted by a defaulting borrower or the operation of the federal bankruptcy laws, may have the effect of delaying enforcement of the lien of a defaulted loan and may in certain circumstances reduce the amount realizable from sale of a foreclosed property. Where a loan is secured by hypothecated notes, the bankruptcy of a borrower under a hypothecated note can impair the value of the hypothecated note as security.

In some instances, a loan may not only be secured by real property security but also guaranteed by a third party guarantor. Limited Partners should be aware that, depending on local laws, a guarantor may have defenses that would impair the ability of the lender to enforce its guaranty. For example, in some states if a loan obligation is modified without the guarantor's consent, the guarantor may be exonerated from part or all of its obligations under the guaranty. Other states may require that a lender first exhaust all of its remedies against the borrower and real property security and only then can seek any resulting deficiency from the guarantor. A guarantor may, under some local laws, be able to waive some of these defenses in advance provided that the waivers are sufficiently explicit.

Special Considerations for Junior Encumbrances

The General Partner does not intend to make junior loans. The Fund may in rare circumstances make a loan secured by a second deed of trust (i.e., a loan secured by not more than one senior lien); however, in no event will loans secured by second deeds of trust exceed 5% of the Fund's total loan portfolio (by dollar volume). If the Fund does invest in a second loan, however, there are certain additional considerations applicable to second deeds of trust or mortgages (i.e., junior encumbrances). In addition to the general considerations concerning trust deeds and mortgages discussed above, by its very nature, a junior encumbrance is less secure than more senior ones. Only the holder of a first trust deed or mortgage is permitted to bid in the amount of his credit at his foreclosure sale; junior lienholders must bid cash at a first trust deed or mortgage foreclosure sale. (At a junior lienholder's foreclosure sale, a junior lienholder may bid the amount of his credit.) Accordingly, a junior lienholder (such as the Fund) would need to protect its security interest in the secured property by taking over all obligations of the borrower with respect to senior loans and then keep such obligations current while it forecloses on its junior loan. If the senior loan is a large one, paying current debt service to the senior lender could deplete all of the Fund's cash reserves. Moreover, if the senior loan has matured or is accelerated, the Fund may be compelled to pay it off in full.

As a long-term solution, a junior lienholder would need to commence its own foreclosure action and arrange either (a) to find a purchaser for the property at a purchase price that will recoup the junior lienholder's interest, (b) to refinance the senior loan, or (c) to pay off the senior encumbrances in full and thereby become the senior lienholder (or the owner of the property free and clear of liens). The Fund's inability to achieve any of these solutions in a timely manner will result in severe investment losses to the Fund. This was a common occurrence during the 2007-2008 housing market slump.

The standard form of deed of trust or mortgage used by most institutional lenders, like the one that will be used by the Fund, confers on the beneficiary the right both to receive all proceeds collected under any hazard insurance policy and all awards made in connection with any condemnation proceedings, and to apply such proceeds and awards to any indebtedness secured by the deed of trust, in such order as the beneficiary may determine. Thus, in the event improvements on the property are damaged or destroyed by fire or other casualty, or in the event the property is taken by condemnation, the beneficiary under the underlying first deed of trust or mortgage will have the prior right to collect any insurance proceeds payable under a hazard insurance policy and any award of damages in connection with the condemnation, and to apply the same to the indebtedness secured by the first deed of trust or mortgage before any such proceeds are applied to repay the Fund's loan.

Prepayment Charges

It is unlikely that loans originated by the Fund will provide for prepayment charges to be imposed on the borrowers in the event of certain early payments on the loans. In the event prepayment charges are imposed, however, any prepayment charges collected on loans will be retained by the Fund. Prepayment penalties are generally enforceable as an alternative performance or option on the part of the borrower, and in some circumstances may be enforceable even where the prepayment results from acceleration upon default.

SUMMARY OF LIMITED PARTNERSHIP AGREEMENT

The following is a summary of the Limited Partnership Agreement for the Fund, and is qualified in its entirety by the terms of the Agreement itself. Potential investors are urged to read the entire Agreement, which is set forth as Exhibit A to this Memorandum .

Rights and Liabilities of Limited Partners

The rights, duties and powers of Limited Partners are governed by the Limited Partnership Agreement and Sections 15611, et seq. of the California Corporations Code (the California Revised Limited Partnership Act) and the discussion herein of such rights, duties and powers is qualified in its entirety by reference to such Agreement and Act.

Investors who become Limited Partners in the Fund in the manner set forth herein will not be responsible for the obligations of the Fund. They will be liable however, to the extent of any deficit in their capital accounts upon dissolution, and may also be liable for any return of capital plus interest if necessary to discharge liabilities existing at the time of such return. Any cash distributed to Limited Partners may constitute, wholly or in part, return of capital.

Limited Partners will have no control over the management of the Fund, except that a Partner Majority may, without the concurrence of the General Partner, take the following actions: (a) terminate the Fund (including merger or reorganization with one or more other partnerships); (b) amend the Limited Partnership Agreement; (c) approve or disapprove the sale of all or substantially all the assets of the Fund; or, (d) remove and replace the General Partner. The approval of a Partner Majority is also required to elect a new general partner to continue the business of the Fund after the General Partner ceases to be a general partner other than by removal. Limited Partners representing 10% of the limited partnership interests may call a meeting of the Fund.

Capital Contributions

Interests in the Fund will be sold in Units of $100, and no person may acquire less than 20 Units (i.e., $2,000). (For purposes of meeting this minimum investment requirement, a person may cumulate Units he purchases individually with Units purchased by his or her spouse and for his or her ERISA plan, IRA, rollover-IRA, pension or profit sharing plan.) The General Partner will contribute an amount in cash equal to $1/10^{th}$ of 1% of the aggregate investments by Limited Partners.

Profits and Losses

Profits and losses of the Fund will be allocated among the Limited Partners on a monthly basis according to their respective outstanding capital accounts. Upon transfer of Units (if permitted under the Limited Partnership Agreement and applicable law), profit and loss will be allocated to the transferee beginning with the next succeeding calendar month. One percent (1%) of all Fund profit and loss will be allocated to the General Partner.

Cash Distributions

Cash distributions will be made only to those Limited Partners who make the written election, upon subscription for Units, to receive such distributions on a monthly basis. Other Limited Partners will receive credits to their capital accounts in amounts equal to their respective allocable shares of Fund income, which results in a compounding effect on their earnings. Limited Partners may not change their elections to begin compounding earnings after subscribing for Units unless this offering of Units continues to be qualified with the California Commission of Corporations. The General Partner will receive an amount equal to 1% of all "Cash Available for Distribution," as defined in the Limited Partnership Agreement.

As a result, the percentage Fund interests of non-electing Limited Partners (including voting rights and shares of future income) will gradually increase due to the compounding effect of crediting income to their capital

accounts, while the percentage Fund interests of Limited Partners who receive cash distributions will decrease during the term of the Fund.

Capital Account Maintenance

The General Partner will establish a capital account for each Limited Partner which will, upon admission to the Fund, be credited with the amount paid by such Limited Partner's for the purchase of Units. Thereafter, Limited Partners' capital account balance will be increased on a monthly basis by: (i) the Limited Partners' pro rata share of any net profits earned by the Fund in such month; and (ii) any additional capital contributions made by the Limited Partners during such month through the purchase of additional Units.

Limited Partners' capital account balance will be reduced on a monthly basis by (i) the Limited Partner's pro rata share of any Fund losses incurred in such month; (ii) the amount of cash distributions made to the Limited Partners (but only in the case of Limited Partner's electing monthly income distributions); and (iii) the amount of any withdrawal distributions made to the Limited Partners in such month (if any).

In the event any interest in the Fund is transferred, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

Accounting and Reports

The General Partner will cause to be prepared and delivered to the Limited Partners an annual financial statement of the Fund's operation, which will be audited by an independent accounting firm. The Limited Partners shall also be provided such detailed information as is reasonably necessary to enable them to complete their own tax returns within 90 days after the end of the year.

Restrictions on Transfer

A transferee may not become a substituted Limited Partner without the consent of the General Partner, which may be withheld in its sole discretion. A transferee who does not become a substituted Limited Partner has no right to any information regarding the Fund or to inspect the Fund books, but is entitled only to the share of income or return of capital to which the transferor would be entitled.

General Partner's Interest

The General Partner may withdraw and retire from the Fund at any time upon not less than six months' written notice to all Limited Partners. Upon such withdrawal and retirement, the General Partner is not entitled to any termination or severance payment from the Fund, but shall be paid its then-outstanding capital account balance. The General Partner may also sell and transfer its General Partner's interest in the Fund (including all powers and authorities associated therewith) for such price as it shall determine in its sole discretion, and neither the Fund nor the Limited Partners will have any interest in the proceeds of such sale. However, any such successor or additional general partner must be approved by a Partner Majority.

Term of Fund

The term of the Fund will commence upon the filing of the Certificate of Limited Partnership with the Office of the Secretary of State of California, and will continue until December 31, 2030, unless dissolved sooner: (1) upon the removal, death, retirement, insanity, dissolution or bankruptcy of the General Partner, unless the business of the Fund is continued by a new General Partner elected to continue the business of the Fund by a Partner Majority; (2) upon the affirmative vote of Partner Majority; (3) upon the sale of all or substantially all of the Fund's assets; or (4) by operation of law.

Winding Up

The Fund will not terminate immediately upon the occurrence of an event of dissolution, but will continue until its affairs have been wound up. Upon dissolution of the Fund, the General Partner will wind up the Fund's affairs by liquidating the Fund's assets as promptly as is consistent with obtaining the fair current value thereof, either by sale to third parties or by collecting loan payments under the terms of the loan. All funds received by the Fund shall be applied to satisfy or provide for Fund debts and the balance shall be distributed to partners in accordance with the terms of the Limited Partnership Agreement.

Withdrawal Limitations

A Limited Partner has no right to withdraw from the Fund or to obtain a return of all or any portion of the sums paid for the purchase of Units (or reinvested earnings with respect thereto) for a minimum of 12 months after such Units are purchased. Withdrawal payments will be made on the last day of a given calendar quarter, subject to certain limitations on the amount withdrawn per quarter and available cash flow as discussed herein. A Limited Partner may initiate a withdrawal (or partial withdrawal) from the Fund by giving written notice to the General Partner ("**Notice of Withdrawal**"). If a Notice of Withdrawal is delivered at least one month before the end of a given calendar quarter, then withdrawal payments will commence on the last day of the calendar quarter. (For example, a Limited Partner must give the General Partner Notice of Withdrawal on or before May 31st in order to commence receiving withdrawal payments on June 30th.) Additionally, a Limited Partner may give Notice of Withdrawal during the 12-month minimum investment period, but the Fund is not required to return any sums to a withdrawing Limited Partner prior to the end of the first calendar quarter ending after the 12-month period and at least one month after the Notice of Withdrawal was given.

Exceptions to Limitations on Withdrawal

Notwithstanding the foregoing, the Fund may give priority to the return of the capital accounts of certain Limited Partners and may return such capital accounts prior to the expiration of the minimum 12-month investment period, under the following circumstances:

First, upon the death of the sole beneficiary of a corporate pension or profit-sharing plan, Individual Retirement Account or other employee benefit plan subject to ERISA or upon the death of a Limited Partner (the "**Deceased Investor**"), the return of such Deceased Investor's capital account shall have priority over the return of other withdrawing Limited Partners' Capital Accounts and may be returned prior to the expiration of such 12-month minimum investment period. Accordingly, if the administrator, executor or other personal representative of the estate of the Deceased Investor gives the General Partner Notice of Withdrawal on or before the last day of the month immediately preceding the last month of a given calendar quarter, the entire capital account of the Deceased Investor will be returned on the last day of such calendar quarter regardless as to whether or not the 12-month minimum investment period has been satisfied. Notwithstanding the foregoing, if the Deceased Investor's capital account exceeds $50,000, then such capital account shall be returned in quarterly installments not to exceed $50,000 until the entire capital account has been returned in full.

Second, the General Partner, at its sole and absolute discretion, will have the right, at any given time, to immediately return all or a portion of the capital account of one or more ERISA plan investors (the "**ERISA Plan Investors**") in order to ensure that the Fund remains exempt from the Plan Asset Regulations. (See "ERISA Considerations.") The return of such ERISA Plan Investors' capital accounts shall have priority over the return of all other withdrawing Limited Partners' capital accounts, including those of Deceased Investors, and may be returned prior to the expiration of such 12-month minimum investment period.

Return of Capital Account

The amount that a withdrawing Limited Partner will receive from the Fund is determined by the Limited Partner's capital account. A capital account is a sum calculated for tax and accounting purposes, and may be greater than or less than the fair market value of the Limited Partner's interest in the Fund. The fair market value of a Limited Partner's interest in the Fund will generally be irrelevant in determining amounts to be paid upon

withdrawal, except to the extent that the current fair market value of the Fund's loan portfolio is realized by sales of existing loans (which sales will not be made in the ordinary course of the Fund's business).

The return of a withdrawing Limited Partner's capital account is subject to the following limitations:

(1) The Fund will not establish a reserve from which to fund withdrawals, and accordingly, the Fund's capacity to return a Limited Partner's capital account is restricted to the availability of Fund cash flow in any given calendar quarter. For this purposes, cash flow is considered to be available only after all current Fund expenses have been paid (including compensation to the General Partner and its Affiliates) and adequate provision has been made for maintaining adequate reserves and for the payment of all monthly cash distributions on a pro rata basis which must be paid to Limited Partners who elected to receive such distributions upon subscription for Units.

(2) In the sole and absolute discretion of the General Partner, in order to ensure that the Fund remains exempt from the ERISA plan asset regulation, the Fund may apply available cash flow to return all or a portion of the capital accounts of ERISA Plan Investors.

(3) The Fund will first apply any available cash flow to return the capital accounts of Deceased Investors, subject to a $50,000 limit per Deceased Investor per calendar quarter.

(4) If current cash flow in any given calendar quarter is inadequate to return a Limited Partner's capital account, the Fund is not required to liquidate any mortgage loans prior to maturity for the purpose of liquidating the capital account of a withdrawing Limited Partner, but is required to pay whatever cash flow is available to withdrawing Limited Partners in order of withdrawal requests received.

(5) Except as otherwise provided by clause (3) above, distributions of capital accounts to withdrawing Limited Partners are initially limited to $25,000 per calendar quarter per Limited Partner. If more than 20,000 Units (i.e., $2,000,000) are sold, the maximum quarterly capital distribution to any withdrawing Limited Partner will be increased by $5,000 for each additional 10,000 Units (i.e., $1,000,000) sold. (For example, if the Fund sells a total of 30,000 Units, the maximum capital distribution would increase to $30,000 per Limited Partner per quarter.)

(6) Finally, except upon the winding up and termination of the Fund, the General Partner will not, within any one calendar year, liquidate more than 20% of the total Fund Capital Accounts outstanding at the beginning of that calendar year.

During the period that a Limited Partner's capital account is being liquidated: (1) the Limited Partner will also receive monthly distributions of his/her allocable share of earnings in respect of his/her limited partnership interest, as if the Limited Partner had elected to receive monthly distributions upon subscribing for Units; and (2) the withdrawing Limited Partner's capital account will remain subject to reduction by reason of any loan losses that are recognized by the Fund during the withdrawal period.

LEGAL MATTERS

The General Partner has retained legal counsel to advise it and the Fund in connection with the preparation of this Memorandum and the Limited Partnership Agreement, as well as the offer and sale of the Units offered hereby. Such counsel has not been retained to provide legal services in connection with the drafting of any loan documents for Fund loans, the negotiation or closing of any loans or the servicing or enforcement of any loans, nor has it represented the interests of the Limited Partners in connection with the Units offered hereby. Investors purchasing Units that wish to obtain the benefit of review by legal counsel on their behalf must retain their own attorneys to do so.

PLAN OF DISTRIBUTION

Units will be offered and sold by the General Partner or by its duly authorized agents and employees. Additionally, the General Partner, in its sole discretion, may arrange for Units also to be sold through registered securities broker-dealers. Any such agents, employees or broker-dealers will be paid selling commissions to be

negotiated on a case-by-case basis. These selling commissions will be paid by the General Partner, and shall not be an expense of the Fund. There is no firm commitment from any third party to purchase any Units, and there is no assurance that the maximum amount (or the increased maximum amount) of this offering will be received.

ADDITIONAL INFORMATION AND UNDERTAKINGS

The General Partner undertakes to make available to each offeree every opportunity to obtain any additional information from the Fund or the General Partner necessary to verify the accuracy of the information contained in this Memorandum , to the extent that it possesses such information or can acquire it without unreasonable effort or expense. This additional information includes, without limitation, all the organizational documents of the Fund, information regarding past mortgage lending experience of the General Partner and all other documents or instruments relating to the operation and business of the Fund which are material to this offering and the transactions contemplated and described in this Memorandum .

EXHIBIT A

LIMITED PARTNERSHIP AGREEMENT

EXHIBIT B

SUBSCRIPTION AGREEMENT