BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Financial Statements
September 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Blackburne & Sons Realty Capital Corporation and Affiliate which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackburne & Sons Realty Capital Corporation and Affiliate as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Boden Klein & Sneesby

BODEN KLEIN & SNEESBY
Certified Public Accountants
Roseville, California

December 28, 2020

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
September 30, 2020 and 2019

ASSETS

	2020	2019
Current assets:		
Cash	$ 16,886	$ 4,516
Mortgage servicing rights	601,987	673,381
Prepaid expenses	12,998	7,094
Prepaid income taxes	2,626	2,253
Other receivables	101,983	32,926
Total current assets	736,480	720,170
Property and equipment, net	12,914	16,359
Other assets:		
Investment in partnerships	163,287	164,716
Intangible asset, net	48,652	57,152
Mortgage servicing rights - net of current portion	737,706	776,420
Total other assets	949,645	998,288
TOTAL ASSETS	$ 1,699,039	$ 1,734,817
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 908,269	$ 1,078,277

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Balance Sheets
September 30, 2020 and 2019

LIABILITIES AND STOCKHOLDERS' EQUITY

	2020	2019
Current liabilities:		
Accounts payable	$ 77,140	$ 51,878
Accrued expenses	30,315	36,594
Lease payable	1,053	2,964
Shareholder note payable	163,828	173,073
Line of credit	41,500	58,000
Total current liabilities	313,836	322,509
Non-current liabilities:		
Lease payable, net of current portion	-	1,143
Deferred income taxes	333,258	368,312
Total non-current liabilities	333,258	369,455
Total liabilities	647,094	691,964
Stockholders' equity:		
Common stock - no par value, authorized, issued and outstanding, 100 shares	100	312
Additional paid-in capital	312	100
Retained earnings	1,051,533	1,042,441
Total stockholders' equity	1,051,945	1,042,853
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,699,039	$ 1,734,817
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 908,269	$ 1,078,277

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2020 and 2019

	2020	2019
Revenues:		
Servicing fees	$ 819,828	$ 786,984
Loan commissions	400,144	437,086
Property management fees	143,408	174,602
Software licensing fees	77,131	124,006
Fund management fees	57,500	49,500
Video and manual sales	28,438	41,469
Amortization of mortgage servicing rights	(110,108)	310,561
Total revenue	1,416,341	1,924,208
Expenses:		
Salaries	721,434	748,860
Salaries - George Blackburne	212,970	250,488
Salaries - Francisca Blackburne	53,328	53,328
Other expenses	91,006	86,782
Insurance	80,746	74,659
Payroll taxes	70,512	73,633
Legal	66,441	15,485
Marketing	64,290	84,056
Outside consultants	55,355	99,415
Office rent	40,084	31,774
Employee benefits	37,014	27,862
Retirement plan contributions	27,166	40,040
Automobile	19,229	21,388
Office expense	17,989	32,528
Accounting	14,213	14,580
Telephone and utilities	12,573	18,247
Education	12,217	10,340
Maintenance and repairs	12,016	10,926
Loan arrangement fees	11,979	14,152
Depreciation	11,945	13,392
Tax and license	5,889	14,734
Travel	3,999	11,611
Equipment lease	2,039	5,258
Total expenses	1,644,434	1,753,538
(Loss) income from operations	(228,093)	170,670

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Income and Retained Earnings
For the Years Ended September 30, 2020 and 2019

	2020	2019
(Loss) income from operations (continued)	$ (228,093)	$ 170,670
Other income (expense):		
Interest expense	(14,624)	(20,059)
(Loss) income from partnerships	(1,429)	5,091
PPP loan forgiveness	184,982	-
Other fees and income	34,802	58,352
Total other income (expense)	203,731	43,384
(Loss) income before income taxes	(24,362)	214,054
Income tax (benefit) expense	(33,454)	60,532
NET INCOME	9,092	153,522
Retained earnings, beginning of year	1,042,441	888,919
RETAINED EARNINGS, END OF YEAR	$ 1,051,533	$ 1,042,441

See notes to financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	$ 9,092	$ 153,522
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation	11,945	13,392
Amortization & impairment of mortgage servicing rights	720,907	568,187
Additions to mortgage servicing rights	(610,799)	(878,748)
Accrued interest, shareholder note payable	10,477	13,025
Loss (income) from partnerships	1,429	(5,091)
PPP loan forgiveness	(184,982)	-
Deferred income taxes	(35,054)	57,387
Changes in operating assets and liabilities:		
Prepaid expenses	(5,904)	3,486
Prepaid income taxes	(373)	2,241
Other receivables	(69,057)	83,269
Accounts payable	25,262	6,269
Accrued expenses	(6,279)	3,126
Net cash (used) provided by operating activities	(133,336)	20,065
Cash flows from financing activities:		
Proceeds from PPP loan	184,982	-
(Payments) on shareholder note payable	(19,722)	-
Advances on line of credit	944,500	1,064,000
(Payments) on line of credit	(961,000)	(1,082,000)
Capital lease payments	(3,054)	(3,327)
Net cash provided (used) in financing activities	145,706	(21,327)
Net increase (decrease) in cash	12,370	(1,262)
Cash, beginning of year	4,516	5,778
CASH, END OF YEAR	$ 16,886	$ 4,516

See notes to financial statements.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

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

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

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

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

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

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

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

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

The Company files tax returns in the United States federal jurisdiction and in the state of California. The Organization's federal income tax returns for the tax years 2016 and forward remain subject to examination by the Internal Revenue Service. The Company's California income tax returns for the years 2015 and forward remain subject to examination by the Franchise Tax Board.

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

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

NOTE 2 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	2020	2019
Furniture and fixtures	$ 37,674	$ 37,674
Equipment	49,447	49,447
Computer equipment	19,028	19,028
Vehicles	51,005	51,005
Software	55,832	55,832
Total	212,986	212,986
Less: accumulated depreciation	200,072	196,627
Net property and equipment	$ 12,914	$ 16,359

NOTE 3 - INTANGIBLE ASSET:

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

NOTE 4 - MORTGAGE SERVICING RIGHTS:

The activity in MSRs was as follows:

	2020	2019
Balance at beginning of period	$ 1,449,801	$ 1,139,240
Additions	610,799	878,748
Scheduled amortization & reduction due to early loan payoffs	(720,907)	(568,187)
Reserve for impairment	-	-
Mortgage servicing rights, net	$ 1,339,693	$ 1,449,801

The estimated fair value of recognized MSRs for the years ended September 30, 2020 and 2019 was $1,339,693 and $1,449,801, respectively. The fair value was determined by discounting estimated net future cash flows from mortgage servicing activities using appropriate discount and prepayment rates. The gross amount of expected future servicing revenue (net of related servicing costs) before applicable discounting for the years ending September 30, 2020 and 2019 was approximately $1,951,888 and $2,075,812, respectively.

NOTE 5 - LINE OF CREDIT:

The Company has a $150,000 available line of credit with First Northern Bank, which is due July 5, 2021. Interest is payable monthly at the bank's base commercial loan rate (5.45% at September 30, 2020) plus 1.25 percent. The line is secured by receivables and equipment of the Company.

NOTE 6 - SHAREHOLDER NOTE PAYABLE

The Company has an unsecured note payable in the amount of $163,828 and $173,073 at September 30, 2020 and 2019, respectively, to the principal officer and sole shareholder of the Company. The note was originally due on July 9, 2020, but the due date has been extended to July 9, 2021 with interest at 6%. The Company accrued $10,477 and $13,025 of interest expense for the years ended September 30, 2020 and 2019, respectively.

NOTE 7 - PPP LOAN

The Company received loan proceeds in the amount of $184,982 under the federal Payroll Protection Program (PPP). The note matures on April 28, 2022 and bears interest at a rate of 1% per annum, payable monthly beginning in November 2020. Funds from the loan may only be used for qualifying expenses which are payroll costs, group health care benefits, mortgage payments, rent, utilities and certain debt obligations. Under the terms of the PPP, up to the full amount of the loan may be forgiven if the proceeds are used for qualifying expenses. The Company applied for loan forgiveness and anticipates the full amount of loan will be forgiven. Accordingly, the loan forgiveness is recognized as income.

NOTE 8 - TRANSACTIONS WITH RELATED PARTY:

During the years ended September 30, 2020 and 2019, the Company received servicing revenue of $1,419 and $11,398, respectively, and collected management fees, including shared expenses, in the amount of $39,000 and $39,000, respectively from Blackburne & Brown Mortgage Fund I, a California limited partnership (the Fund). The Company is the general partner of the Fund. The Company's capital balance with the fund was $48,064 and $48,527 at September 30, 2020 and 2019, respectively, and is included on the balance sheet as Investment in Partnerships.

The Company has an ownership interest in Blackburne & Brown Mortgage Fund II (Fund II), a California limited partnership, and provides various management services to Fund II. The Company collected management fees in the amount of $18,500 and $10,500 for the years ended September 30, 2020 and 2019, respectively. Additionally, the Company received $37,059 and $28,436, respectively, in servicing revenue from Fund II for the years ended September 30, 2020 and 2019. The Company's capital balance with Fund II was $69,383 and $68,722 at September 30, 2020 and 2019, respectively, and is included on the balance sheet as Investment in Partnerships.

The Company has a profits and loss interest in Blackburne & Brown Equity Preservation Fund, LLC (LLC), manages the LLC and receives various fees for services performed. The Company received no management fees for the years ended September 30, 2020 and 2019.

NOTE 9 - INCOME TAX EXPENSE (BENEFIT):

The components of deferred tax liabilities (assets) at September 30, 2020 and 2019 are as follows:

	2020	2019
Mortgage servicing rights	$ 399,765	$ 432,621
Receivables	20,176	1,145
Depreciation and amortization	1,969	3,544
Accounts payable and accrued expenses	(38,867)	(30,255)
State taxes	(21,144)	(24,480)
Net operating loss	(28,641)	(14,263)
Net deferred tax liability	$ 333,258	$ 368,312

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

	2020	2019
Current		
Federal	$ -	$ 1,274
State	1,600	1,871
Total current	1,600	3,145
Deferred		
Federal	(23,193)	39,839
State	(11,861)	17,548
Total deferred	(35,054)	57,387
Total income tax (benefit) expense	$ (33,454)	$ 60,532

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

Net operating losses in the amount of $140,277 begin expiring in 2036.

NOTE 10 - COMMITMENTS:

Operating Lease

The Company leases its main office space under an operating lease with monthly base payments of $3,151 expiring on December 31, 2020. Office rent expense was $40,084 and $31,774, respectively for the years ended September 30, 2020 and 2019. The Company entered into a new operating lease for its office space beginning January 2021 and expiring in March 2026. Monthly base rent payments are $4,365.

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

Year Ended September 30,	
2021	$ 36,390
2022	53,163
2023	54,758
2024	56,401
2025	58,093
2026	29,476
Total	$ 288,281

Capital Lease

During 2018, the Company entered into a capital lease agreement for the purchase of computer equipment. The lease began in January 2018 and requires 36 monthly payments of $248. The cost of the computer equipment is $8,921 and is included in the balance sheet as property and equipment. Accumulated amortization of the lease equipment was $7,491 and $5,471, respectively, at September 30, 2020 and 2019 and is included in depreciation expense.

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

Year Ended September 30,	
2021	$ 1,143

NOTE 11 - RETIREMENT PLAN:

On October 1, 1993, the Company established a profit sharing plan that covers substantially all employees. The Company may contribute to the plan an amount designated by the Board of Directors to the extent permissible under the Internal Revenue Code. The Company contributed $0 and $10,000 to the plan for years ended September 30, 2020 and 2019.

On October 1, 2006, the Company adopted a 401(k) defined contribution plan. The plan covers all employees meeting certain eligibility requirements. The Company contributes an amount, (i.e. safe harbor contribution) determined by the Internal Revenue Code. For the years ended September 30, 2020 and 2019, the Company contributed $27,166 and $30,040, respectively, to the plan.

NOTE 12 - CONCENTRATIONS OF CREDIT RISK:

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

NOTE 13 - CASH FLOWS:

For purposes of the statement of cash flows, interest paid by the Company was $4,148 and $7,034 for the years ended September 30, 2020 and 2019, respectively. Additionally, the Company paid $800 in income taxes for each year ended September 30, 2020 and 2019.

NOTE 14 - CONTINGENCIES:

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

NOTE 15 – SUBSEQUENT EVENTS:

Management has evaluated the potential for subsequent events through the available for issuance date of the financial statements, December 28, 2020.

As the impacts of COVID 19 continue to evolve, it is unknown at this time what effects, if any, it may have on future assets, liabilities, revenues and expenses of the Company.