BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Financial Statements
September 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Blackburne & Sons Realty Capital Corporation
and Affiliate
Sacramento, California

Opinion
We have audited the accompanying consolidated financial statements of Blackburne & Sons Realty Capital Corporation and Affiliate, which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated 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, 2022 and 2021, 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.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Blackburne & Sons Realty Capital Corporation and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Blackburne & Sons Realty Capital Corporation and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Blackburne & Sons Realty Capital Corporation and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Blackburne & Sons Realty Capital Corporation and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Boden Klein & Sneesby

BODEN KLEIN & SNEESBY
Certified Public Accountants
Roseville, California

December 22, 2022

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Consolidated Balance Sheets
September 30, 2022 and 2021

ASSETS

	2022	2021
Current assets:		
Cash	$ 78,703	$ 5,762
Mortgage servicing rights	497,724	392,941
Prepaid expenses	15,151	14,552
Prepaid income taxes	1,591	2,266
Other receivables	56,161	55,126
Total current assets	649,330	470,647
Property and equipment, net	9,776	10,988
Other assets:		
Investment in partnerships	158,252	165,353
Intangible asset, net	31,652	40,152
Mortgage servicing rights - net of current portion	581,739	820,949
Total other assets	771,643	1,026,454
TOTAL ASSETS	$ 1,430,749	$ 1,508,089
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 2,159,517	$ 1,294,756

See notes to consolidated financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Consolidated Balance Sheets
September 30, 2022 and 2021

LIABILITIES AND STOCKHOLDERS' EQUITY

	2022	2021
Current liabilities:		
Accounts payable	$ 65,564	$ 48,255
Accrued expenses	29,999	31,554
Deferred rent	13,341	13,537
Shareholder note payable	249,680	171,205
Line of credit	90,000	-
Total current liabilities	448,584	264,551
Non-current liabilities:		
Deferred income taxes	215,047	267,125
Total liabilities	663,631	531,676
Stockholders' equity:		
Common stock - no par value, authorized, issued and outstanding, 100 shares	100	100
Additional paid-in capital	312	312
Retained earnings	766,706	976,001
Total stockholders' equity	767,118	976,413
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,430,749	$ 1,508,089
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	$ 2,159,517	$ 1,294,756

See notes to consolidated financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Consolidated Statements of Income and Retained Earnings
For the Years Ended September 30, 2022 and 2021

	2022	2021
Revenues:		
Servicing fees	$ 645,489	$ 722,401
Loan commissions	403,153	336,501
Property management fees	96,169	99,112
Software licensing fees	39,935	63,967
Fund management fees	36,900	52,500
Video and manual sales	19,229	29,608
Amortization of mortgage servicing rights	(134,427)	(125,803)
Total revenue	1,106,448	1,178,286
Expenses:		
Salaries	597,189	641,044
Salaries - George Blackburne	200,488	192,134
Salaries - Francisca Blackburne	61,578	61,682
Other expenses	72,410	94,488
Payroll taxes	64,499	61,814
Insurance	57,324	53,155
Office rent	54,060	46,983
Marketing	46,670	59,614
Legal	45,046	52,075
Outside consultants	37,107	45,546
Retirement plan contributions	27,061	26,315
Employee benefits	17,168	40,146
Tax and license	16,009	6,036
Office expense	14,495	11,813
Accounting	14,422	13,138
Maintenance and repairs	13,836	17,250
Automobile	11,791	20,283
Telephone and utilities	10,358	12,624
Depreciation	9,712	10,426
Loan arrangement fees	8,237	15,356
Education	2,700	10,689
Travel	561	3,152
Bad debts	-	8,130
Equipment lease	-	3,826
Total expenses	1,382,721	1,507,719
(Loss) from operations	(276,273)	(329,433)

See notes to consolidated financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Consolidated Statements of Income and Retained Earnings
For the Years Ended September 30, 2022 and 2021

	2022	2021
(Loss) from operations (continued)	$ (276,273)	$ (329,433)
Other income (expense):		
Interest expense	(13,125)	(11,121)
(Loss) income from partnerships	(7,101)	2,066
PPP loan forgiveness	-	174,982
Other fees and income	35,801	23,441
Total other income (expense)	15,575	189,368
(Loss) before income taxes	(260,698)	(140,065)
Income tax (benefit)	(51,403)	(64,533)
NET (LOSS)	(209,295)	(75,532)
Retained earnings, beginning of year	976,001	1,051,533
RETAINED EARNINGS, END OF YEAR	$ 766,706	$ 976,001

See notes to consolidated financial statements.

BLACKBURNE & SONS REALTY CAPITAL CORPORATION AND AFFILIATE

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net (loss)	$ (209,295)	$ (75,532)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation	9,712	10,426
Amortization & impairment of mortgage servicing rights	860,636	541,591
Additions to mortgage servicing rights	(726,209)	(415,788)
Accrued interest, shareholder note payable	11,163	9,140
Loss (income) loss from partnerships	7,101	(2,066)
PPP loan forgiveness	-	(174,982)
Deferred income taxes	(52,078)	(66,133)
Changes in operating assets and liabilities:		
Prepaid expenses	(599)	(1,554)
Prepaid income taxes	675	360
Other receivables	(1,035)	46,857
Accounts payable	17,309	(28,885)
Accrued expenses	(1,555)	1,239
Deferred rent	(196)	13,537
Net cash used in operating activities	(84,371)	(141,790)
Cash flows from financing activities:		
Proceeds from PPP loan	-	174,982
Proceeds from shareholder note payable	75,000	-
(Payments) on shareholder note payable	(7,688)	(1,763)
Advances on line of credit	620,000	421,000
(Payments) on line of credit	(530,000)	(462,500)
Capital lease payments	-	(1,053)
Net cash provided by financing activities	157,312	130,666
Net increase (decrease) in cash	72,941	(11,124)
Cash, beginning of year	5,762	16,886
CASH, END OF YEAR	$ 78,703	$ 5,762

See notes to consolidated 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. *Revenue recognition –*
Revenue from the performance of various services is recognized when the services are performed. Generally, this occurs at a point in time. Performance obligations are typically satisfied upon the performance of the service. The Company does not have any significant financing components as payment is received at or shortly after the point of sale.

Effective January 1, 2021, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which amended the existing accounting standards for revenue recognition. The new revenue standard does not have a material impact on the amount and timing of revenue recognized in the Company's financial statements.

e. *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.

f. *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.

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

h. *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.

i. *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.

j. *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 2018 and forward remain subject to examination by the Internal Revenue Service. The Company's California income tax returns for the years 2017 and forward remain subject to examination by the Franchise Tax Board.

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

l. *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.

m. *Reclassifications*
Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2022	2021
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	203,210	201,998
Net property and equipment	$ 9,776	$ 10,988

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. No impairment loss was recorded for the years ended September 30, 2022 and 2021.

NOTE 4 - MORTGAGE SERVICING RIGHTS

The activity in MSRs was as follows:

		2022		2021
Balance at beginning of period	$	1,213,890	$	1,339,693
Additions		726,209		415,788
Scheduled amortization & reduction due to early loan payoffs		(860,636)		(541,591)
Reserve for impairment		-		-
Mortgage servicing rights, net	$	1,079,463	$	1,213,890

The estimated fair value of recognized MSRs for the years ended September 30, 2022 and 2021 was $1,079,463 and $1,213,890, 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, 2022 and 2021 was approximately $1,475,503 and $1,715,854, respectively.

NOTE 5 - LINE OF CREDIT

The Company had a $150,000 available line of credit with First Northern Bank, which the bank did not renew and expired on September 1, 2022. The outstanding balance of $90,000 was paid by the shareholder of the corporation in October 2022.

NOTE 6 - SHAREHOLDER NOTE PAYABLE

The Company has an unsecured note payable in the amount of $249,680 and $171,205 at September 30, 2022 and 2021, respectively, to the principal officer and sole shareholder of the Company. The note was due on July 9, 2022, but the due date has been extended to October 1, 2023 with interest at 6%. The Company accrued $11,162 and $9,140 of interest expense for the years ended September 30, 2022 and 2021, respectively.

NOTE 7 - PPP LOAN

The Company received loan proceeds in the amount of $174,982 for the year ended September 30, 2021 under the federal Payroll Protection Program (PPP). The notes bear interest at a rate of 1% per annum, payable monthly. Funds from the loan may only be used for qualifying expenses. 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 loan has been forgiven, and the loan forgiveness is recognized as income.

NOTE 8 - TRANSACTIONS WITH RELATED PARTY

During the years ended September 30, 2022 and 2021, the Company received servicing revenue of $0 and $330, respectively, and collected management fees, including shared expenses, in the amount of $20,400 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 $42,297 and $49,213 at September 30, 2022 and 2021, 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 $16,500 and $13,500 for the years ended September 30, 2022 and 2021, respectively. Additionally, the Company received $27,652 and $35,930, respectively, in servicing revenue from Fund II for the years ended September 30, 2022 and 2021. The Company's capital balance with Fund II was $70,115 and $70,300 at September 30, 2022 and 2021, 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, 2022 and 2021.

NOTE 9 - INCOME TAXES

The components of deferred tax assets (liabilities) at September 30, 2022 and 2021 are as follows:

	2022	2021
Deferred Tax Asset:		
Accounts payable and accrued expenses	$ 38,204	$ 33,404
State taxes	11,197	15,719
Net operating loss	109,026	81,620
Total deferred tax asset	158,427	130,743
Valuation allowance	(46,987)	(30,937)
Deferred tax asset, net	111,440	99,806
Deferred Tax Liability:		
Mortgage servicing rights	(322,112)	(362,225)
Receivables	(3,312)	(3,312)
Depreciation and amortization	(1,063)	(1,394)
Deferred tax liability, net	(326,487)	(366,931)
Deferred taxes, net	$ (215,047)	$ (267,125)

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

	2022	2021
Current:		
Federal	$ -	$ -
State	1,600	1,600
Total current	1,600	1,600
Deferred:		
Federal	(36,175)	(45,392)
State	(16,828)	(20,741)
Total deferred	(53,003)	(66,133)
Total income tax (benefit) expense	$ (51,403)	$ (64,533)

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 $366,404 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 $4,365 expiring in March 2026. Office rent expense was $54,060 and $46,983, respectively for the years ended September 30, 2022 and 2021.

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

Year Ended September 30,	
2023	$ 54,758
2024	56,401
2025	58,093
2026	29,476
Total	$ 198,728

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 leased equipment was $8,921 at September 30, 2021 and is included in depreciation expense. No further minimum lease payments are required.

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 did not contribute to the plan for years ended September 30, 2022 and 2021.

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, 2022 and 2021, the Company contributed $27,061 and $26,315, 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 $8,902 and $1,981 for the years ended September 30, 2022 and 2021, respectively, and the Company paid $1,600 and $800 in income taxes for the years ended September 30, 2022 and 2021, respectively. Additionally, the Company received PPP loan forgiveness in the amount of $174,982 for the year ended September 30, 2021 which were non-cash transactions.

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 22, 2022.