Lone Oak Fund, LLC and Subsidiary

Consolidated Financial Statements
and Independent Auditor's Report

December 31, 2021

Lone Oak Fund, LLC and Subsidiary

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Independent Auditor's Report

To the Manager of Lone Oak Fund, LLC

Opinion

We have audited the consolidated financial statements of Lone Oak Fund, LLC (a California Liability Company) and Subsidiary (the "Fund"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lone Oak Fund, LLC and Subsidiary as of December 31, 2021, and the results of their operations, changes in their stockholders' equity, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the 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 the Fund's ability to continue as a going concern for 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 GAAS 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 GAAS, 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 consolidated 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 the Fund'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 the Fund'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.

CohnReznick LLP

Los Angeles, California
May 2, 2022

Lone Oak Fund, LLC and Subsidiary

Consolidated Balance Sheet
December 31, 2021

Assets	
Cash, restricted cash, and cash equivalents	$ 156,203,868
Interest receivable	3,207,516
Investments in first trust deed loans	1,093,804,000
Total assets	$ 1,253,215,384
Liabilities and Stockholders' Equity	
Dividends payable	$ 5,725,126
Other liabilities	2,671,364
Total liabilities	8,396,490
Stockholders' equity	
Common stock, $1,000 par value, 1,250,000 shares authorized, 1,243,200 shares issued and outstanding	1,243,200,000
Retained earnings	1,618,894
Total stockholders' equity	1,244,818,894
Total liabilities and stockholders' equity	$ 1,253,215,384

See Notes to Consolidated Financial Statements.

Lone Oak Fund, LLC and Subsidiary

Consolidated Statement of Income
Year Ended December 31, 2021

Revenues	
Interest income	$ 70,982,219
Dividend income	1,384
Total revenues	70,983,603
Expenses	
Loan servicing fees	3,222,053
Total expenses	3,222,053
Net operating income	67,761,550
Other income	
Gain on disposition of real estate	4,498
Net income	$ 67,766,048

See Notes to Consolidated Financial Statements.

Lone Oak Fund, LLC and Subsidiary

Consolidated Statement of Stockholders' Equity
Year Ended December 31, 2021

	Common stock			
	Shares	Amount	Retained earnings	Total
Balance, January 1, 2021	1,143,125	$1,143,125,000	$4,611,899	$1,147,736,899
Sale of common stock	154,900	154,900,000	-	154,900,000
Redemption of common stock	(54,825)	(54,825,000)	-	(54,825,000)
Net income	-	-	67,766,048	67,766,048
Dividends	-	-	(70,759,053)	(70,759,053)
Balance, December 31, 2021	1,243,200	$1,243,200,000	$1,618,894	$1,244,818,894

See Notes to Consolidated Financial Statements.

Lone Oak Fund, LLC and Subsidiary

Consolidated Statement of Cash Flows
Year Ended December 31, 2021

Cash flows from operating activities	
Net income	$ 67,766,048
Adjustments to reconcile net income to net cash flows provided by operating activities	
Gain on sale of real property	(4,498)
Changes in operating assets and liabilities	
Interest receivable	3,619,836
Other assets	732
Other liabilities	(1,387,232)
Net cash flows provided by operating activities	69,994,886
Cash flows from investing activities	
Investments in first trust deed loans	(769,575,000)
Proceeds from repayment of first trust deed loans	732,934,000
Proceeds on sale of real estate	3,137,336
Investments in real estate	(249,324)
Net cash flows used in investing activities	(33,752,988)
Cash flows from financing activities	
Sale of common stock	154,900,000
Dividends, net of change in dividend payable	(70,864,175)
Redemptions of common stock	(54,825,000)
Net cash flows provided by financing activities	29,210,825
Net increase in cash, restricted cash, and cash equivalents	65,452,723
Cash, restricted cash, and cash equivalents, as of January 1, 2021	90,751,145
Cash, restricted cash, and cash equivalents, as of December 31, 2021	$ 156,203,868
Supplemental disclosures	
Schedule of non-cash investing and financing transactions	
Non-cash investments in first trust deed loans	$ (50,933,000)
Non-cash proceeds from first trust deed loans	$ 50,933,000

See Notes to Consolidated Financial Statements.

Note 1 - Description of the Fund

Lone Oak Fund, LLC, a California limited liability company (the "Fund"), was formed in January 2003. According to the Seventh Amended and Restated Operating Agreement (the "Amended Agreement") executed on July 1, 2018, the Fund was formed for the purpose of making or purchasing entire or fractional interests in loans secured by first trust deeds on commercial, industrial, and residential property and entitled vacant land located in California. Effective on July 1, 2018, the Fund elected to be taxed as a real estate investment trust ("REIT"), for U.S. federal income tax purposes. As a result, each member's limited liability company interest was contributed to the REIT in exchange for REIT common shares on a dollar-for-dollar basis.

The Fund is managed by Lone Oak Industries, Inc. (the "Manager"), a California corporation, which has exclusive control over the Fund.

The term of the Fund shall continue indefinitely or until the Fund is dissolved and liquidated as provided under the Amended Agreement.

Stockholders' equity

The Fund has authorized the issuance of 1,250,000 shares of common stock at a par value of $1,000 per share. As of December 31, 2021, there were 1,243,200 shares issued and outstanding. There are no other classes of equity authorized.

Contributions and distributions

The minimum initial capital contribution is $250,000. The Manager may accept an initial contribution of a lesser amount at its sole discretion. Stockholders may make subsequent capital contributions in minimum increments of $25,000 at the sole discretion of the Manager.

Contributions are required to remain in the Fund for at least one year prior to redemption. Redemptions may be requested quarterly in $25,000 increments for up to 25% of the investment or $100,000, whichever is greater. Exceptions to the maximum redemption amounts are allowed for death, disability, and financial hardship. Redemptions are processed on the last day of the month during which the redemption is requested.

Net income is distributed to the stockholders each month pro rata, based on the number of shares held by each stockholder as of the last day of each month.

Note 2 - Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Lone Oak Fund, LLC and its wholly-owned Subsidiary, Lone Oak GB, LLC (the "Subsidiary"). The Subsidiary was formed in 2020 to own and operate real estate acquired through foreclosure on non-performing first trust deed loans. Lone Oak GB, LLC held a foreclosed property that was sold in 2021.

All intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash, restricted cash and cash equivalents

The Fund considers all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents. The Fund maintains cash balances in four different banks located in Southern California.

As of December 31, 2021, the Fund has $90,886,600 of cash equivalents.

The Fund holds restricted cash in trust on behalf of its borrowers. The trust funds are used to pay for interest, real estate improvements, real estate taxes, and to pay the Manager for extension and origination fees. The cash held in trust totaled $2,166,885 as of December 31, 2021, and is included in cash, restricted cash, and cash equivalents in the accompanying consolidated balance sheet. Corresponding liabilities of $2,166,885 as of December 31, 2021 are included in other liabilities in the accompanying consolidated balance sheet.

The following table provides a reconciliation of cash and restricted cash reported within the consolidated balance sheet:

	As of December 31, 2021
Cash	$ 154,036,983
Restricted cash	2,166,885
Cash and restricted cash	$ 156,203,868

Investments in first trust deed loans and interest revenue recognition

The Fund makes loans secured by first trust deeds on commercial, industrial, and residential property and entitled vacant land located in California. The outstanding loans, secured by the first trust deeds, are held for investment purposes, anticipated to be held until maturity and are recorded at cost. The loans generate monthly interest revenue, which is accrued and recognized as interest income at the contractual rate of interest. If events and/or changes in circumstances cause management to have serious doubts about the further collectability of the contractual payments, a loan may be categorized as defaulted and interest would no longer be accrued. Any subsequent payments on non-performing loans are applied to reduce the outstanding loan balances including previously accrued interest and advances.

Real estate owned

Investments in real estate are recorded at fair value on the date of foreclosure. The estimated fair value of real estate related assets is determined through an appraisal process. These estimated fair values may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Although the estimated fair values represent subjective estimates, management believes these estimated fair values are reasonable approximations of market prices and the aggregate estimated value of investments in real estate is fairly presented at December 31, 2021. Costs to acquire real estate investments are capitalized as a component of investment cost. The Fund did not hold any real estate owned at December 31, 2021.

Allowance for loan losses
The allowance for loan losses reflects management's estimate of loan losses inherent in the loan portfolio as of the balance sheet date and are determined on an asset-specific basis for losses on individual impaired loans. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Fund will be unable to collect all amounts due under the contractual terms of the loan agreement. This assessment is made on an individual basis, based on such factors as payment status, borrower financial resources, and collateral. An allowance is established for an impaired loan when the estimated fair value of the collateral is lower than the carrying value of the loan. As of December 31, 2021, management estimates that the collateral for all non-performing loans is sufficient to cover the carrying value of loans. No allowance for loan losses has been recognized for the year ended December 31, 2021.

Management designates non-performing loans at such time as (a) the borrower fails to make the required monthly loan payments; (b) the loan has a maturity default; or (c) in the opinion of management, it is probable the Fund will be unable to collect all amounts due according to the contractual terms of the loan. As of December 31, 2021, there was one non-performing loan with a principal amount of $4,145,000, which represents 0.4% of the total first trust deeds. No allowance for loan losses has been recorded on this loan as the loan amount plus accrued interest and other related expenses are less than the fair market value of the property and the Fund expects to recover the principal amount of the loan either through the borrower or through foreclosure.

Income taxes
The Fund operates and has elected to be taxed as a REIT. Accordingly, the Fund generally will not be subject to corporate U.S. federal or state income tax to the extent that the Fund makes qualifying distributions to stockholders, and provided that the Fund satisfies, on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and unit ownership tests. If the Fund fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, the Fund will be subject to U.S. federal, state and income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which the Fund lost its REIT qualification. Accordingly, the failure to qualify as a REIT could have a material adverse impact on the Fund's results of operations and amounts available for distribution to stockholders.

The Fund has no unrecognized tax benefits as of December 31, 2021. Management continually evaluates expiring statutes of limitations, changes in tax law and new authoritative rulings. Generally, the Fund is subject to income examination for federal and state tax purposes for years after 2018 and 2017, respectively.

The Fund recognizes interest and penalties associated with tax matters, if applicable, as operating expenses and includes interest and penalties with the related tax liability in the consolidated balance sheet.

The Subsidiaries are limited liability companies and are disregarded entities for federal income tax purposes.

Note 3 - Concentrations

Cash, restricted cash, and cash equivalents
The Fund maintains its cash, restricted cash, and cash equivalents in bank deposit and brokerage accounts, which at times may exceed federally insured limits. The Fund has not experienced any losses in such accounts and monitors the creditworthiness of the financial institution with which it

conducts business. The Fund believes that it is not exposed to any significant credit risk with respect to its cash and cash equivalents balances as of December 31, 2021. As of December 31, 2021, the Fund had approximately $155,000,000 in excess of the FDIC and SIPC limits.

Geographic area
The Fund originates loans secured by real property in California, which exposes it to potential losses and unforeseen economic conditions which could have an adverse effect on operations.

Note 4 - Related party transactions

Stockholders' equity
Officers of the Manager and their relatives (the "related party stockholders") comprise 9.52% of total stockholders' equity as of December 31, 2021. The related party stockholders had a combined investment of $118,375,000 in the Fund as of December 31, 2021. Total dividends paid to these related party stockholders in 2021 were $6,416,079. During 2021, the related party stockholders made capital contributions of $12,900,000 and received no redemptions.

Loan servicing fee
The Fund pays a monthly asset management and loan servicing fee to the Manager equal to 0.025% of existing investments in first trust deed loans. The Manager pays all other operating and administrative expenses for the Fund. For the year ended December 31, 2021, the Manager earned a fee in the amount of $3,222,053, all of which was paid during 2021.

The Manager retains all loan origination, loan extension and miscellaneous fees paid by the borrowers. During 2021, borrowers paid approximated $14,700,000 to the Manager for fees related to loan origination, extension and other services.

Note 5 - Investments in first trust deed loans

The loans, secured by first trust deeds, are short-term mortgage loans with maturities typically ranging between 12 and 24 months. The activity for the year ended December 31, 2021 is as follows:

Balance as of January 1, 2021	$ 1,057,163,000
Investments in new first trust deeds	820,508,000
Proceeds from repayment of first trust deeds	(783,867,000)
Balance as of December 31, 2021	$ 1,093,804,000

Note 6 - Commitments and contingencies

The Fund’s commitments and contingencies include usual obligations incurred by real estate investment companies in the normal course of business. This includes restricted cash and interest reserves. In the opinion of management, these matters will not have a material adverse effect on the Fund’s financial position and results of operations.

From time to time, the Fund is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, the Fund does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial condition or cash flows.

Note 7 – Subsequent events

Management has evaluated the activity of the Fund through May 2, 2022 (the issue date of the consolidated financial statements) and has concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

Between January 1, 2022 and May 2, 2022, the Fund received principal payments on outstanding first trust deeds totaling approximately $340,000,000. During the same period, there were new loans or principal increases on existing loans totaling approximately $274,000,000.