

CV Holdings, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2022 and 2021

CV Holdings, Inc. and Subsidiaries

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Independent Auditors' Report

To the Board of Directors of
CV Holdings, Inc.

Opinion

We have audited the consolidated financial statements of CV Holdings, Inc. and Subsidiaries (collectively the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, stockholders' (deficit) equity and cash flows for the years 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 the Company as of December 31, 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 (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company 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 Consolidated 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 Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated 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 auditors' 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 Company'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 Company'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 audits.

Baker Tilly US, LLP

Irvine, California
April 11, 2023

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues		
Interest income on loans receivable	\$ 17,343,688	\$ 11,552,461
Broker and other income	806,273	845,626
Management and servicing fees from affiliates	350,000	166,479
Loss from unconsolidated entities	<u>(867,633)</u>	<u>(793,465)</u>
Total revenues	<u>17,632,328</u>	<u>11,771,101</u>
Operating Expenses		
Salaries and related payroll	5,244,937	5,026,138
General and administrative	4,746,251	3,398,403
Provision for loan losses	<u>4,297,028</u>	<u>2,004,301</u>
Total operating expenses	<u>14,288,216</u>	<u>10,428,842</u>
Income from operations	<u>3,344,112</u>	<u>1,342,259</u>
Interest Expense and Other		
Interest on senior perpetual preferred stock (Note 6)	-	(3,283,579)
Interest on senior non-convertible preferred stock (Note 6)	(11,478,988)	(8,246,130)
Interest on lines of credit and securitized debt (Note 5)	(3,664,551)	(2,256,946)
Unrealized gain on derivative instruments (Note 5)	<u>-</u>	<u>42,386</u>
Total interest expense and other, net	<u>(15,143,539)</u>	<u>(13,744,269)</u>
Loss before income tax (provision) benefit	(11,799,427)	(12,402,010)
Income Tax (Provision) Benefit	<u>(44,616)</u>	<u>2,252</u>
Net loss	(11,844,043)	(12,399,758)
Less net loss attributable to noncontrolling interests	<u>-</u>	<u>-</u>
Net loss attributable to CV Holdings, Inc.	<u>\$ (11,844,043)</u>	<u>\$ (12,399,758)</u>

See notes to consolidated financial statements

CV Holdings, Inc. and SubsidiariesConsolidated Statements of Stockholders' (Deficit) Equity
Years Ended December 31, 2022 and 2021

	<u>Common Stock Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Non- controlling Interests</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Ending Balance, December 31, 2020	64,413,784	\$ 644,136	\$ 10,295,229	\$ -	\$ (54,647,297)	\$ (43,707,932)
Common Stock issued (Note 6)	-	-	-	-	-	-
Net loss	-	-	-	-	(12,399,758)	(12,399,758)
Ending Balance, December 31, 2021	64,413,784	644,136	10,295,229	-	(67,047,055)	(56,107,690)
Common Stock issued (Note 6)	-	-	-	-	-	-
Net loss	-	-	-	-	(11,844,043)	(11,844,043)
Ending Balance, December 31, 2022	<u>64,413,784</u>	<u>\$ 644,136</u>	<u>\$ 10,295,229</u>	<u>\$ -</u>	<u>\$ (78,891,098)</u>	<u>\$ (67,951,733)</u>

See notes to consolidated financial statements

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Net loss	\$ (11,844,043)	\$ (12,399,758)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	4,297,028	2,004,301
Depreciation	69,451	55,248
Amortization of debt discount and financing costs	486,270	477,873
Paid in-kind interest on mandatorily redeemable preferred stock (Note 6)	11,026,575	11,137,721
Unrealized gain on derivative instruments	-	(42,386)
Loss from unconsolidated entities	867,633	793,465
Changes in operating assets and liabilities:		
Management and servicing fees receivable from affiliates	6,890	47,263
Prepaid expenses and other assets	(392,480)	572,867
Accounts payable, accrued expenses and other liabilities	948,531	368
Net cash provided by operating activities	<u>5,465,855</u>	<u>2,646,962</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(53,018)	(58,388)
Funding of loans receivable	(117,222,489)	(79,036,690)
Principal payments on loans receivable	75,399,420	53,609,443
Distributions from Opportunity Funds	-	78,475
Net cash used in investing activities	<u>(41,876,087)</u>	<u>(25,407,160)</u>
Cash Flows From Financing Activities		
Payments of deferred financing costs	(114,425)	(1,141,508)
Borrowings on securitized debt	-	58,375,000
Payments on securitized debt	(21,667,869)	(18,890,564)
Borrowings on lines of credit	101,613,157	56,532,719
Payments on lines of credit	(43,730,843)	(71,812,033)
Net cash provided by financing activities	<u>36,100,020</u>	<u>23,063,614</u>
Net (decrease) increase in cash and restricted cash	(310,212)	303,416
Cash and Restricted Cash, Beginning	<u>11,955,338</u>	<u>11,651,922</u>
Cash and Restricted Cash, Ending	<u>\$ 11,645,126</u>	<u>\$ 11,955,338</u>
Supplemental Disclosure of Cash Flows Information		
Cash paid during the year for:		
Interest	<u>\$ 2,771,571</u>	<u>\$ 1,807,787</u>
Income taxes (benefit) provision	<u>\$ 44,616</u>	<u>\$ (2,252)</u>

See notes to consolidated financial statements

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Conversion of senior perpetual preferred stock to senior non-convertible preferred stock (Note 6)	<u>\$ -</u>	<u>\$ 42,716,747</u>
Issuance of common stock in connection with conversion of senior perpetual preferred stock (Note 6)	<u>\$ -</u>	<u>\$ -</u>
Deferred financing costs paid with borrowings on line of credit	<u>\$ 114,425</u>	<u>\$ 103,653</u>

See notes to consolidated financial statements

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

1. Organization and Business

CV Holdings, Inc. is a corporation organized in Maryland on May 10, 2005. CV Holdings, Inc. and its subsidiaries described below are collectively referred to as the Company hereinafter. The Company operates as a holding company for several finance-related businesses. The Company, through its wholly-owned or controlled subsidiaries, holds several types of investment assets, including loans receivable, finance leases, commercial Collateralized Debt Obligations (CDO) interests, and investments in joint ventures and limited liability companies. Specifically, the Company owns and operates: (i) a small ticket finance and leasing business through Centra Funding, LLC (Centra); (ii) a commercial real estate lending business through CV Capital Funding, LLC (CVCF); (iii) a venture equipment finance and leasing business through VenSource Management, LLC (VenSource); and (iv) a residential nonperforming loan (NPL) servicer and asset manager through LongVue Mortgage Capital, Inc. (LongVue). The various operating businesses are owned by the Company's wholly owned taxable REIT subsidiary, RFC TRS, Inc. (TRS), while the portfolio investments are held through other subsidiaries outside the TRS.

The Company's primary businesses, as mentioned above, include: (i) Centra, which is focused on commercial small ticket equipment leases or finance contracts where originations utilize a vendor-based model. Centra's business is nationwide across various industries; (ii) CVCF, which focuses on the commercial real estate bridge loan market. CVCF's loans are secured primarily by first mortgages on commercial real estate assets. Property types intended for consideration include: multi-unit residences, industrial, office, hospitality and other commercial properties. Core financial products include bridge loans, mezzanine loans, renovation finance, preferred equity/partnership interest and debt purchases; and (iii) VenSource, which focuses on the venture leasing business, where it provides leases on critical equipment to venture backed companies in the high tech and bio tech/life sciences industry. Lessees are typically in their A or B funding rounds with proven revenue models and are backed by venture capital firms. In June 2018, VenSource ceased operations.

LongVue's business encompasses the servicing and asset management of NPL portfolios on behalf of several nondiscretionary investment funds (Opportunity Funds) which are managed and sponsored by LongVue or its affiliates. The underlying assets of these Opportunity Funds include portfolios of NPLs and real estate owned (REO) assets. LongVue and another Company affiliate co-invest in each Opportunity Fund. The principal purpose of the Opportunity Funds is to purchase the specified assets, collect, manage, refinance, sell and/or otherwise dispose of loans; to foreclose on, own, operate, lease, sell or otherwise dispose of properties securing such loans; and to operate, lease, sell or otherwise dispose of any other assets of the Opportunity Funds. All remaining assets in the LongVue Opportunity Funds have been disposed of or otherwise resolved.

Merger of Realty Finance Corporation and ClearVue Management, Inc.

On August 5, 2013, Realty Finance Corporation (RFC) completed a merger transaction (the Merger) with ClearVue Management, Inc. (CVM), a California-based private real estate investment company. Upon completion of the Merger, RFC was renamed CV Holdings, Inc. (CVH). For legal and capital purposes, CVH (formerly RFC) is considered the acquiring entity.

Collateralized Debt Obligations

Prior to the Merger, RFC's primary business involved collateralized debt obligations, or CDOs. A wholly-owned subsidiary of RFC, Realty Finance Holdings, LLC (RFH), invested in CDO entities in 2006 (CDO I) and 2007 (CDO II). The majority of the CDO legacy commercial mortgage assets are pledged as collateral for the CDO bonds. Due to the decline in value of the CDO assets during the financial crisis of 2008-2010, both CDO I and CDO II are significantly under-collateralized. Due to the under-collateralization of both CDOs, management believes any recovery of the Company's investment in each CDO through RFH is highly unlikely and the Company fully reserved for those losses in prior years. Additionally, as the Company has no responsibility to fund the under-collateralization due to the CDOs providing no future benefit or future obligation for the Company, the assets and liabilities associated with both CDO I and CDO II have been excluded from these consolidated financial statements.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as contained within the Financial Accounting Standards Board (FASB).

Pursuant to Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statement Going Concern (Subtopic 205-40)*, management evaluates the Company's ability to continue as a going concern for one year after the date of the consolidated financial statements are available for issuance. Management has performed its evaluation as of April 11, 2023 of the accompanying consolidated financial statements and determined that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CV Holdings, Inc. and its wholly-owned subsidiaries, CVCF-CVH I LLC, Realty Finance Holdings, LLC, CV Fund Holdings, LLC and TRS, including five wholly-owned subsidiaries of TRS, Centra Collateral Protection, LLC, CV Capital Funding, LLC, CVH-VSC Management, LLC, LongVue and RFC WKI, LLC (WKI). The account of Centra has also been consolidated, as the Company controls such entity. The remaining capital is controlled by a principal of the Company which is presented as noncontrolling interests. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

Risks and Uncertainties

The Company maintains cash balances at several banks. The Company's cash balance exceeded federally insurable limits as of December 31, 2022. The Company intends to mitigate this risk by depositing funds with a major financial institution or limiting the balance to federally insurable limits; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. From time to time, the Company maintains deposits in financial institutions in excess of federally-insured limits. Management, however, believes the Company is not exposed to any significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Fluctuations in interest rates may reduce interest income and otherwise negatively impact the Company's financial condition and results of operations. Interest income is a principal component of the Company's total revenue. If interest rates decrease, the rate of interest the Company receives on loans receivable may decline.

Financial instruments that subject the Company to concentration risk include loans receivable. No significant concentrations exist as of December 31, 2022 and 2021.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Restricted Cash

Cash balances that have restrictions as to the Company's ability to withdraw funds are considered restricted cash. The restricted cash consists of funds necessary to satisfy the terms of the Company's securitized debt agreements (See Note 5). In accordance with the terms of the agreements, the Company is required to maintain cash balances with the lender as collateral for interest reserves. These restricted funds are subject to supervision and disbursement approval by the Company's lender.

Management and Servicing Fees Receivable From Affiliates

Management and servicing fees receivable consists primarily of amounts due from the Opportunity Funds and other affiliates. As of December 31, 2022 and 2021, the Company had \$0 and \$6,890, respectively, of management and servicing fees receivable from the Opportunity Funds and other affiliates. Management evaluates receivables periodically for potential uncollectible accounts. As of December 31, 2022 and 2021, management concluded a reserve for uncollectible management and servicing fees was not required.

Investments in Unconsolidated Entities

The Company accounts for its noncontrolling interests in real estate joint venture using the cost method of accounting and the Opportunity Funds using the equity method of accounting. Under the equity method, the Company recognizes its proportionate share of earnings and losses generated by these unconsolidated entities.

The Company reviews its investments in the Opportunity Funds and the real estate joint venture for impairment at each balance sheet date. Investments in these entities are reviewed for evidence of other-than-temporary declines in value. To the extent that investments are not deemed recoverable, the Company would record an impairment adjustment to its investment accordingly. As of December 31, 2022 and 2021, management determined that no impairment adjustments relating to investments in unconsolidated entities were warranted.

Deferred Financing Costs

Deferred financing costs consist of fees and other related costs incurred in connection with the outstanding indebtedness and lines of credit, and are amortized to interest expense over the terms of the related debt. Deferred financing costs on fixed debt are presented as a direct reduction from the carrying amount of that debt liability. Deferred financing costs associated with line of credit arrangements are presented as an asset, regardless of whether there are any outstanding borrowings.

Derivative Instruments

The Company purchases derivative instruments to mitigate the risk of fluctuating interest rates related to its variable rate line of credit. The Company records the derivative instruments at their estimated fair value each reporting period, with changes in fair value recorded through earnings on the accompanying consolidated statement of operations, as they were not designated as effective cash flow hedges.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Loans Receivable

The Company's loans receivable are recorded at amortized cost, net of loan loss reserves and unearned interest income, and evaluated for impairment at each balance sheet date. The amortized cost of a loan receivable is the outstanding unpaid principal balance, net of unamortized costs and fees directly associated with the origination of the loan. The loans are secured by various equipment and commercial real estate properties.

The reserve for loan losses is a valuation allowance that reflects management's estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is adjusted through "Provision for loan losses" on the Company's consolidated statements of operations and is decreased by charge-offs to specific loans when losses are confirmed. The reserve for loan losses includes a portfolio-based component and an asset-specific component.

An asset-specific reserve relates to reserves for losses on loans considered impaired. The Company considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. The Company also considers a loan to be impaired if it grants the borrower a concession through a modification of the loan terms or if it expects to receive assets (including equity interests in the borrower) with fair values that are less than the carrying value of the loan in satisfaction of the loan. A reserve is established when the present value of payments expected to be received, observable market prices, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or amounts expected to be received in satisfaction of a loan are lower than the carrying value of such loan.

A portfolio-based reserve covers the pool of loans that do not have asset-specific reserves. A provision for loan losses is recorded when available information as of the balance sheet dates indicates that it is probable that a loss occurred in the pool of loans and the amount of the loss can be reasonably estimated, but the Company does not know which specific loans within the pool will ultimately result in losses. Required reserve balances for this pool of loans are derived from estimated probabilities of default and estimated loss severities assuming a default occurs. The Company's management assigns estimated probabilities of default and loss severities to each loan in the portfolio based on factors such as the debt service coverage of the underlying collateral, the estimated fair value of the collateral, the significance of the borrower's investment in the collateral, the financial condition of the borrower and/or its sponsors, the likelihood that the borrower and/or its sponsors would allow the loan to default, the Company's willingness and ability to step in as owner in the event of default, and other pertinent factors.

Revenue Recognition

Interest income on the Company's loans receivable is recognized on an accrual basis over the life of the investment using the effective interest method. Direct loan origination fees and origination costs are amortized over the term of the loan as an adjustment to interest income. The Company places loans on nonaccrual status when any portion of principal or interest is 60-90 days past due, depending upon the type of loan, or earlier when concern exists as to the ultimate collection of principal or interest. When a loan is placed on nonaccrual status, the Company reverses the accrual for unpaid interest and generally does not recognize subsequent interest income until cash is received or the loan returns to accrual status. The Company will resume the accrual of interest if it determines the collection of interest according to the contractual terms of the loan is probable. As of December 31, 2022, 48 contracts at Centra are greater than 90 days delinquent with an aggregate unpaid principal balance of \$1,366,775. As of December 31, 2021, 29 contracts at Centra were greater than 90 days delinquent with an aggregate unpaid principal balance of \$713,954.

The Company provides general management services for debt investments and asset management, acquisition, due diligence and performance services to the Opportunity Funds. Generally, management and servicing fees from affiliates are recognized when these services are provided or when considered earned in accordance with the provisions under the service agreements.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Income Taxes

The Company uses an asset and liability approach for financial accounting and reporting for income taxes. Deferred taxes are recorded based on differences between the financial statement and tax basis of assets and liabilities. These differences will result in taxable or deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the Company's current and past performance, the market environment in which the Company operates, tax planning strategies and the length of carryforward periods for loss carryforwards, if any. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, the Company provides for income tax issues not yet resolved with federal, state and local tax authorities.

In estimating the benefit or provision for income taxes, the Company evaluates all tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The Company has evaluated the application of Accounting Standard Codification Topic (ASC) No. 740-10, *Accounting for Income Taxes*, for the years ended December 31, 2022 and 2021 and has concluded that under its provisions no accrual for uncertain tax positions, penalty or interest is required.

The Company is currently not under income tax examination by any taxing agency, and is currently unaware of any pending examinations by such agencies. The general statute of limitations for Internal Revenue Service examinations is three years. Therefore, the tax years ended December 31, 2019 through December 31, 2021 remain open for examination by the Internal Revenue Service. In addition, the general statute of limitations in states where the Company files is three to four years; therefore, the tax years ended December 31, 2018 through December 31, 2021 also remain open for examination.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* (ASU No. 2016-02), which requires companies to recognize assets and liabilities on the balance sheet for the rights and obligations created by the leased assets and provide additional disclosures. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2021. Effective January 1, 2022, the Company adopted the requirements of ASU No. 2016-02. The implementation did not have a material impact on the Company's financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses*, (Accounting Standard Codification Topic 326), which changes the criteria under which credit losses on financial instruments (such as the Company's loans receivable) are measured. ASC 326 introduces a new credit reserving model known as the Current Expected Credit Loss (CECL) model, which replaces the incurred loss impairment methodology previously used under U.S. GAAP with a methodology that records the expected lifetime credit losses on financial instruments. To establish such lifetime credit loss estimates, consideration of a broadened range of reasonable and supportable information to establish credit loss estimates is required. The new guidance is effective for the Company in the fiscal year beginning after January 1, 2023. Management is in the process of assessing the effect that the adoption of ASC 326 will have on the Company's consolidated financial statements as of and for the year ending December 31, 2023.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

3. Loans Receivable

The Company, through certain of its wholly owned subsidiaries, originated or assumed loans during the years ended December 31, 2022 and 2021. As of December 31, 2022 and 2021, outstanding loans receivable were as follows:

	<u>2022</u>	<u>2021</u>
Venture finance leases. These leases are secured by equipment and require monthly payments of \$7,088 through March 2022. The leases bear an effective interest rate of 10.10% per annum.	\$ —	\$ 21,070
Commercial real estate bridge loans. These loans are secured by real estate properties. The loans require monthly interest-only payments, bear a weighted average interest rate of 8.87% per annum and mature at various dates through August 2021.	—	4,855,000
Commercial equipment contracts. These finance contracts are secured by small ticket equipment. The contracts require monthly payments, bear interest at a weighted average interest rate of 15.47% per annum and mature at various dates through August 2028.	<u>132,765,558</u>	<u>90,560,810</u>
Principal on loans receivable	132,765,558	95,436,880
Deferred loan origination income and cost, net	811,954	443,042
Provision for loan losses	<u>(3,696,763)</u>	<u>(3,525,214)</u>
Loans receivable, net	<u>\$ 129,880,749</u>	<u>\$ 92,354,708</u>

As of December 31, 2022, expected future installments on loans receivable are due in succeeding years as follows:

2023	\$ 3,877,100
2024	19,287,798
2025	31,262,269
2026	51,127,543
2027	64,490,044
Thereafter	<u>642,536</u>
Total expected future installments	170,687,290
Less unearned interest	<u>(37,921,732)</u>
Principal on loans receivable	<u>\$ 132,765,558</u>

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Activity relating to provision for loan losses for the years ended December 31, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 3,525,214	\$ 3,174,118
Provision for loan losses	4,297,028	2,004,301
Net charge - offs	<u>(4,125,479)</u>	<u>(1,653,205)</u>
Balance at end of year	<u>\$ 3,696,763</u>	<u>\$ 3,525,214</u>

4. Investments in Unconsolidated Entities

Investments in Opportunity Funds

The Company, as an investor in the Opportunity Funds, receives a preferred return distribution based on its invested capital. Total preferred return and capital return distributions received for the years ended December 31, 2022 and 2021 were \$0 and \$78,475, respectively, and are reflected as a reduction of the investment balance.

Investments in the Opportunity Funds consisted of the following as of December 31, 2022 and 2021:

<u>Entity</u>	<u>Ownership Interest</u>	<u>2022</u>	<u>2021</u>
WestVue NPL Venture, LLC	0.10 %	\$ —	\$ —
CVH Co-Invest Partners LP	36.53 %	—	—
Invictus, CVCF I, LLC	20.00 %	<u>2,242,167</u>	<u>3,109,800</u>
		<u>\$ 2,242,167</u>	<u>\$ 3,109,800</u>

Unaudited condensed combined selected financial information for the Opportunity Funds listed above as of December 31, 2022 and 2021 and for the years then ended is as follows:

<u>Unaudited Condensed Combined Balance Sheets</u>		
	<u>2022</u>	<u>2021</u>
Assets		
Investments in real estate assets	\$ 9,700,295	\$ 9,140,268
Loans receivable, net	—	5,207,347
Other assets	<u>4,610,033</u>	<u>4,628,530</u>
Total assets	<u>14,310,328</u>	<u>18,976,145</u>
Liabilities		
Accounts payable and accrued expenses	72,313	391,889
Compensation due to manager	—	—
Debt	<u>3,000,000</u>	<u>3,000,000</u>
Total liabilities	<u>3,072,313</u>	<u>3,391,889</u>
	<u>\$ 11,238,015</u>	<u>\$ 15,584,256</u>
Net assets		
Net assets attributable to the Company	\$ 2,242,167	\$ 3,109,800
Net assets attributable to other investors	<u>8,995,848</u>	<u>12,474,456</u>
	<u>\$ 11,238,015</u>	<u>\$ 15,584,256</u>

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Unaudited Condensed Combined Statements of Operations		
	2022	2021
Net investment revenue	\$ 170,988	\$ 1,386,932
Operating expenses	<u>(1,379,249)</u>	<u>(2,485,463)</u>
Investment loss	(1,208,261)	(1,098,531)
Increase in net realized and unrealized loss on real estate investment assets	<u>(3,129,906)</u>	<u>(3,261,342)</u>
Net decrease in net assets resulting from operations	(4,338,167)	(4,359,873)
Net decrease in net assets attributable to other investors	<u>(3,470,534)</u>	<u>(3,566,408)</u>
Net decrease in net assets attributable to the Company	<u>\$ (867,633)</u>	<u>\$ (793,465)</u>

Investment in Real Estate Joint Venture

The Company has a noncontrolling ownership interest in a joint venture which owns a hospitality-based real estate asset. The Company's position is a minority position with no operational control or influence over the asset or the entity which owns the asset. The Company received no distributions from the real estate joint venture during the years ended December 31, 2022 and 2021. The Company recorded \$350,000 of revenue for asset management fees associated with this asset during the year ended December 31, 2022, which was received subsequent to December 31, 2022.

The Company records its investment in the real estate joint venture using the cost method of accounting. Under the cost method of accounting, investments are assessed for other-than-temporary impairment (OTTI) and are adjusted accordingly. Based on management's evaluation, no OTTI was recorded for the years ended December 31, 2022 and 2021.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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5. Debt

Line of Credit

On May 1, 2017, the Company, through Centra, entered into a \$20,000,000 warehouse debt facility with a financial institution expandable to \$30,000,000. On December 12, 2018, the Company entered into a Waiver and the Fifth Amendment to waive specified defaults and amend the terms defined in the original loan agreement. The debt facility had an initial maturity of three years, or May 1, 2020. Through a series of amendments, the initial maturity date was extended to May 1, 2021 and the Maximum Revolver Amount increased to \$65,000,000 as of February 10, 2021. Concurrent with the March 16, 2021 securitization, the Maximum Revolver Amount was decreased to \$20,000,000 and the maturity date was extended to July 1, 2021. On August 27, 2021, the Company amended and restated the Loan and Security Agreement and changed certain terms (including certain covenants and definitions), extended its maturity date to August 27, 2024, and increased the Maximum Revolver Amount, as defined therein, to \$40,000,000 with the ability to increase it further on the same terms to \$65,000,000. On March 9, 2022, the financial institution temporarily increased the Company's Maximum Revolver Amount to \$55,000,000 for a period of 90 days. On April 12, 2022, the Company and the financial institution amended and restated the Loan and Security Agreement, increasing the Maximum Revolver Amount to \$80,000,000 and changing certain terms (including certain covenants and definitions, the Applicable Margin and the Advance Rate, as defined therein). On October 28, 2022, the Company agreed to certain amendments and the joinder of an additional financial institution to the Loan and Security Agreement among Centra Funding, LLC and related entities, and Wells Fargo Bank, National Association as Administrative Agent. The amendments reflected changes to certain terms of the agreement (including pricing and certain covenants) and increased the Maximum Revolver Amount, as defined therein, to \$140,000,000.

The line of credit bears a per annum interest at 1M Term SOFR plus the Applicable Margin, as defined (6.12% at December 31, 2022). The outstanding balance under line of credit was \$87,196,953 as of December 31, 2022. The line of credit bore a per annum interest at 1M LIBOR plus the Applicable Margin, as defined (2.35% at December 31, 2021). The outstanding balance under the line of credit was \$29,314,639 as of December 31, 2021.

The Company incurred \$2,457,361 of interest expense on its line of credit for the year ended December 31, 2022, which includes \$72,534 of amortization of deferred financing costs and \$40,923 of unused line fees. The Company incurred \$872,649 of interest expense on its line of credit for the year ended December 31, 2021, which includes \$124,833 of amortization of deferred financing costs and \$34,855 of unused line fees. The Company was in compliance with all covenants under the credit agreement as of December 31, 2022 and 2021.

Securitized Debt

On March 16, 2021, the Company, through Centra, closed its \$58,375,000 term securitization with an institutional investor which is comprised of \$52,881,000 of Class A Note and \$5,494,000 of Class B Note with maturity dates in November 2027. The securitized debt bears a fixed per annum interest rate of 2.49% for the Class A Note and 3.77% for the Class B Note.

As of December 31, 2022, the outstanding balance under the securitized debt was \$18,230,303 which is net of \$354,872 of deferred financing costs. The Company incurred \$1,207,190 of interest expense for the year ended December 31, 2022, which includes \$413,736 of amortization of deferred financing costs. The Company was in compliance with all covenants under the indenture agreement as of December 31, 2022.

CV Holdings, Inc. and Subsidiaries

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Derivative Instruments

During the year ended December 31, 2019, the Company purchased two rate collars, which effectively cap LIBOR over the term of the line of credit at 6.25%. The rate collars expired on January 1, 2022. The Company recorded an unrealized gain on derivative instruments of \$0 and \$42,386 for the years ended December 31, 2022 and 2021, respectively.

6. Mandatorily Redeemable Stock

Senior Non-Convertible Preferred Stock

During 2015, the Company entered into a securities purchase agreement and investor rights agreement with Colborne Brighton, LLC (Colborne) in connection with the sale in a private placement of shares of Senior Non-Convertible Preferred Stock of the Company (Senior Non-Convertible Preferred) and common stock for the purpose of growing the Company's NPL business and developing other business lines as agreed with Colborne. Colborne agreed to purchase up to 50,000 shares (representing a face amount of \$50,000,000) of Senior Non-Convertible Preferred through multiple issuances, subject to certain agreed-upon conditions. The Senior Non-Convertible Preferred shares are entitled to receive dividends on the last day of each calendar quarter beginning June 30, 2015 at the rate of 10% per annum. The Company has the option to pay or accrue a 10% dividend on Senior Non-Convertible Preferred through the three-year anniversary of each issuance, and then may either continue to pay dividends at the rate of 12% per annum until the Senior Non-Convertible Preferred is redeemed or otherwise defeased. The Company may redeem any Senior Non-Convertible Preferred, subject to certain approvals by Colborne, on and after the three-year anniversary of its issuance. The Senior Non-Convertible Preferred is not convertible into common stock or debt. The Senior Non-Convertible Preferred is optionally redeemable by the Company under certain circumstances and Colborne has the right to demand a mandatory redemption starting with the fifth anniversary of its respective issuance date.

The redemption rights of the Senior Non-Convertible Preferred are on a pari passu basis with the redemption rights of the Senior Perpetual Preferred. Colborne has material corporate governance rights, including among other things, the equivalent of two board seats and approval rights over major corporate decisions.

In 2015, Colborne purchased 20,000 shares of Senior Non-Convertible Preferred for \$20,000,000 and received 10,000,000 out of the 12,621,596 shares of common stock, which represents 20% of the fully diluted common equity of the Company, plus the right to receive additional common stock at its option. Colborne received the remaining 2,621,596 shares of common stock in 2016. At each subsequent funding by Colborne, the Company was required to issue additional shares of common stock comprising 1% of the fully diluted common equity of the Company for every \$1,000,000 of Senior Non-Convertible Preferred purchased.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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In 2016, the Company issued an additional 189 shares of Senior Non-Convertible Preferred for \$189,000 and 123,769 shares of common stock to Colborne to facilitate Colborne's acquisition of the common shares and warrant to purchase common shares held by JAM Special Opportunities Fund II, LP. Colborne exercised 1,792,283 shares of common stock on the warrants acquired.

In accordance with ASC Topic No. 480, *Distinguishing Liabilities from Equity*, the Company recorded the Senior Non-Convertible Preferred as debt based on the redemption feature. The instrument is subsequently measured at its redemption amount, including dividends, at each reporting period. The shares of common stock issued in conjunction with the Senior Non-Convertible Preferred were freestanding instruments. The Company recorded the cash proceeds based on the relative fair value of the Senior Non-Convertible Preferred and common stock. The allocation of proceeds to the common stock created a debt discount which is recognized as interest expense over the period from issuance to the fifth anniversary of the respective issuance date.

The Company issued a total of 20,189 shares (representing a face amount of \$20,189,000) of Senior Non-Convertible Preferred and 12,745,365 of common shares to Colborne as of December 31, 2016. Of the \$20,189,000, \$2,463,903 was allocated to the common stock and \$17,725,097 was allocated to the Senior Non-Convertible Preferred. The allocation of the common stock created a debt discount which was amortized and recognized as interest expense. The Company incurred a total of \$323,425 in issuance costs in connection with the transaction, \$39,429 of which was allocated to the common shares and \$283,996 was allocated to the Senior Non-Convertible Preferred in the same manner as the proceeds. Issuance costs allocated to the issuance of Senior Non-Convertible Preferred are recorded as a deduction from the corresponding liability, whereas issuance costs allocated to the issuance of common shares are recorded as contra equity.

The Company incurred \$11,478,988 and \$8,246,130 of interest expense on its mandatorily redeemable Senior Non-Convertible Preferred Stock for the years ended December 31, 2022 and 2021, which includes no amortization of deferred financing costs and no amortization of debt discount, respectively. As of December 31, 2022 and 2021, the redemption amount of the Senior Non-Convertible Preferred was \$102,526,928 and \$91,500,353, respectively, which includes \$36,637,927 and \$25,611,352 of cumulative dividends recognized as interest expense as of December 31, 2022 and 2021, respectively.

Senior Perpetual Preferred Stock

On February 6, 2017, pursuant to the amended securities purchase agreement, Colborne purchased 20,000 shares (representing a face amount of \$20,000,000) of Senior Perpetual Preferred Stock (Senior Perpetual Preferred). The Senior Perpetual Preferred is entitled to receive dividends on the last day of each calendar quarter at the rate of 15% per annum for the first 36 months. The Company has the option to pay dividends in cash or in kind. The Company may redeem any Senior Perpetual Preferred, subject to certain approvals by Colborne, on and after the three-year anniversary of its issuance. The Senior Perpetual Preferred was optionally (at any time after the issuance date) or automatically converted (beginning on the fourth anniversary of the related issuance date) to shares of Senior Non-Convertible Stock. Upon either automatic or an optional conversion, any Accrued Incremental Dividend, as defined in the articles and securities purchase agreement, was to be satisfied with the delivery of the Company's common stock based on a formula outlined in the agreement. The Senior Perpetual Preferred ranked pari-passu in all matters with the Senior Non-Convertible Preferred.

On September 1, 2017, Colborne purchased additional 10,000 shares (representing a face amount of \$10,000,000) of Senior Perpetual Preferred.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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In accordance with ASC Topic No. 480, the Company recorded the Senior Perpetual Preferred as debt based on the redemption feature. The instrument is subsequently measured at its redemption amount, including dividends, at each reporting period. The Company incurred \$0 and \$3,283,579 of interest expense on its Senior Perpetual Preferred for the years ended December 31, 2022 and 2021, respectively.

On September 1, 2018, Colborne, through an optional conversion, converted 5,993 shares of Senior Perpetual Preferred into 5,625 shares of Senior Non-Convertible Preferred and 6,000,000 shares of common stock.

On October 1, 2020, Colborne, through an optional conversion, converted 4,380 shares of Senior Perpetual Preferred into 3,801 shares of Senior Non-Convertible Preferred and 3,200,000 shares of common stock.

On February 6, 2021, the Company automatically converted 13,749 shares of Senior Perpetual Preferred into 11,803 shares of Senior Non-Convertible Preferred and delayed the issuance of 9,467,972 shares of common stock. The Company recorded a related liability of \$1,945,741 for the unissued common stock which is included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets.

On September 1, 2021, the Company automatically converted the remaining 28,968 shares of Senior Perpetual Preferred into 24,471 shares of Senior Non-Convertible Preferred and delayed the issuance of 18,154,935 shares of common stock. The Company recorded a related liability of \$4,496,870 for the unissued common stock which is included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets. As of December 31, 2021, all Senior Perpetual Preferred has been converted into shares of Senior Non-Convertible Preferred.

As of December 31, 2022, the Company is not in default under the terms and conditions of the Senior Non-Convertible Preferred and Senior Perpetual Preferred, and Colborne has no present intention to require redemption of the Company's Senior Non-Convertible Preferred in the near term and through June 30, 2023.

From time to time, Colborne has requested that the Company defray certain expenses and make certain payments on its behalf, including a portion of the compensation of the Company's Chairman and Chief Executive Officer. Colborne has agreed that sums equal to all such amounts paid by the Company at Colborne's request, together with any associated expenses incurred by the Company, compounded from the date of payment at the applicable dividend rate of the Senior Non-Convertible Preferred, may be offset against future amounts required to be paid to Colborne in respect of the Senior Non-Convertible Preferred.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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7. Income Taxes

A summary of the consolidated income tax provision (benefit) for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Current		
Federal	\$ —	\$ —
State	44,616	(2,252)
	<u>44,616</u>	<u>(2,252)</u>
Noncurrent		
Federal	—	—
State	—	—
	<u>—</u>	<u>—</u>
Total income tax provision (benefit)	<u>\$ 44,616</u>	<u>\$ (2,252)</u>

The effective income tax rates for 2022 and 2021 vary from the federal statutory tax rate due to permanent book/tax differences, state income tax expense, and change in valuation allowances. For the years ended December 31, 2022 and 2021, the effective income tax rates were (0.44)% and (0.50)%, respectively, versus the statutory federal rate of 21%.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company operates as a holding company to several wholly owned subsidiaries. The components of the Company's deferred tax assets (liabilities) as of December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Deferred tax assets (liabilities):		
Accounts payable and accruals	\$ 5,190	\$ 8,289
Investment in Opportunity Funds	585,994	605,773
Interest expense	—	—
Net operating losses	123,240,622	122,997,683
State taxes	—	—
Other	97,269	109,093
Valuation allowance	<u>(123,929,075)</u>	<u>(123,720,838)</u>
Net deferred tax assets, net	<u>\$ —</u>	<u>\$ —</u>

The Company's primary deferred tax asset is net operating losses (NOLs), aggregating to approximately \$496 million and \$296 million for federal and state purposes, respectively, through December 31, 2022. As management is not certain that the Company will generate taxable income in future periods to utilize the NOLs, a full valuation allowance has been recorded. Use of the NOLs may be subject to certain limitation requirements under Section 382 of the Internal Revenue Code.

CV Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
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8. Stockholders' Deficit

Stockholders' deficit is comprised of two classes of stock: common stock and preferred stock. The Company is authorized to issue 200,000,000 common shares and 50,000,000 preferred shares. As of December 31, 2022, issued and outstanding shares were comprised of 64,413,784 shares of common stock at \$0.01 par value and 102,527 shares of Senior Non-Convertible Preferred at \$1,000 par value.

Warrants

As of December 31, 2022 and 2021, the Company had warrants outstanding for 4,148,532 shares and exercisable for 1,203,074 shares of common stock at an exercise price of \$0.01 per share.

Stock Options

The activity under the stock option plans for the years ended December 31, 2022 and 2021 is summarized as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>
Options outstanding at January 1, 2021	<u>3,024,242</u>	\$ 0.30	4
Options outstanding at December 31, 2021	<u>3,024,242</u>	0.30	3
Expired in 2022	<u>(250,000)</u>	0.21	2
Options outstanding at December 31, 2022	<u>2,774,242</u>	0.39	1
Options exercisable at December 31, 2022	<u>2,774,242</u>		

9. Commitments and Contingencies

In the ordinary course of its business, the Company may be, from time to time, subject to disputes. The Company is not aware of any disputes that would reasonably be expected to have a material adverse effect on its results of operations or financial condition.

10. Subsequent Events

Management has evaluated subsequent events for their potential impact on the accompanying consolidated financial statements and disclosures through April 11, 2023, which is the date the accompanying consolidated financial statements were available to be issued.