

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2025 and 2024

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of
Queen City Investments, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Queen City Investments, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Queen City Investments, Inc. and subsidiaries as of December 31, 2025 and 2024, 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Queen City Investments, Inc. and subsidiaries 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 Queen City Investments, Inc. and subsidiaries' 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 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 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 Queen City Investments, Inc. and subsidiaries' 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 Queen City Investments, Inc. and subsidiaries' 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.



Long Beach, California
March 30, 2026

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2025	2024
ASSETS		
Cash and cash equivalents	\$ 16,692,625	\$ 13,521,878
Securities held-to-maturity (fair value of \$20,803,647 – 2025; \$20,322,550 – 2024) (Note 2)	20,780,197	20,725,462
Alternative investments (Note 3)	1,976,431	2,096,918
Breeding herd, net (Note 4)	557,291	496,609
Property and equipment, net (Note 5)	27,333,425	32,464,189
Building and land held for sale	6,502,638	-
Trust fees and other receivables	2,277,650	1,731,401
Other assets (Note 6)	647,175	456,102
Operating lease right-of-use assets (Note 8)	424,232	678,829
TOTAL ASSETS	\$ 77,191,664	\$ 72,171,388

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Accounts payable and accrued expenses	\$ 2,871,256	\$ 1,591,280
Other liabilities	129,504	122,004
Operating lease liabilities (Note 8)	446,495	705,125
Deferred taxes (Note 9)	1,358,030	1,654,202
TOTAL LIABILITES	4,805,285	4,072,611

COMMITMENTS AND CONTINGENCIES (Note 12)

STOCKHOLDERS' EQUITY

Common stock, \$2 par value, 300,000 shares authorized	93,442	93,458
Additional paid-in capital	48,497	48,505
Retained earnings	72,244,440	67,956,814
	72,386,379	68,098,777
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 77,191,664	\$ 72,171,388

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31,	
	2025	2024
TRUST FEES AND COMMISSIONS	\$ 19,713,432	\$ 16,390,103
INTEREST INCOME	1,063,962	896,255
GAIN ON SALE OF CATTLE	1,131,557	846,165
RENTAL INCOME	2,904,730	3,089,361
OTHER INCOME	146,113	282,398
	<u>24,959,794</u>	<u>21,504,282</u>
OPERATING EXPENSES		
Personnel and benefits	11,495,582	8,652,835
Equipment and other ranch expenses	758,742	585,944
Professional services	2,588,979	2,939,005
Rental operating expenses	1,580,459	1,707,967
General business expenses	1,797,463	1,537,938
	<u>18,221,225</u>	<u>15,423,689</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	6,738,569	6,080,593
PROVISION FOR INCOME TAXES	1,967,757	1,736,316
NET INCOME	<u>\$ 4,770,812</u>	<u>\$ 4,344,277</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
BALANCE, JANUARY 1, 2024	47,245	\$ 94,490	\$ 49,045	\$ 64,758,360	\$ 64,901,895
NET INCOME	-	-	-	4,344,277	4,344,277
SHARES RETIRED	(516)	(1,032)	(540)	(678,533)	(680,105)
DIVIDENDS PAID	-	-	-	(467,290)	(467,290)
BALANCE, DECEMBER 31, 2024	46,729	93,458	48,505	67,956,814	68,098,777
NET INCOME				4,770,812	4,770,812
SHARES RETIRED	(8)	(16)	(8)	(15,976)	(16,000)
DIVIDENDS PAID	-	-	-	(467,210)	(467,210)
BALANCE, DECEMBER 31, 2025	<u>46,721</u>	<u>\$ 93,442</u>	<u>\$ 48,497</u>	<u>\$ 72,244,440</u>	<u>\$ 72,386,379</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,770,812	\$ 4,344,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,154,013	1,195,506
Net amortization (accretion) of securities held-to-maturity	(15,205)	51,620
Amortization of operating lease right-of-use assets	304,129	90,022
Change in deferred taxes	(296,172)	33,215
Changes in operating assets and liabilities:		
Breeding herd, net	(60,682)	(136,156)
Trust fees and other receivables	(546,249)	(108,479)
Other assets	(191,073)	447,657
Accounts payable and accrued expenses	1,279,976	426,389
Other liabilities	7,500	(32,959)
Operating lease liabilities	(308,162)	(92,392)
Net Cash Provided By Operating Activities	6,098,887	6,218,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital call payments, alternative investments	-	(242,500)
Proceeds from alternative investments	120,487	-
Purchases of securities held-to-maturity	(7,039,530)	(3,942,500)
Proceeds from maturity of securities held-to-maturity	7,000,000	7,900,000
Purchases of property and equipment	(2,525,887)	(3,762,957)
Collection of notes receivable	-	55,000
Net Cash (Used In) Provided By Investing Activities	(2,444,930)	7,043
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of stock	(16,000)	(680,105)
Dividends paid	(467,210)	(467,290)
Net Cash Used In Financing Activities	(483,210)	(1,147,395)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,170,747	5,078,348
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,521,878	8,443,530
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 16,692,625	\$ 13,521,878

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Queen City Investments, Inc. and its subsidiaries is presented to assist in understanding the consolidated financial statements. The consolidated financial statements and notes are representations of Queen City Investments, Inc.'s management, which is responsible for their integrity and objectivity. The accounting policies conform to generally accepted accounting principles in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the consolidated financial statements as of and for the years ended December 31, 2025 and 2024.

Organization and Nature of Business

Queen City Investments, Inc. (Queen City) and its subsidiaries are incorporated under the laws of the state of California. Queen City is the parent company of its two wholly owned subsidiaries, Farmers and Merchants Trust Company of Long Beach (the Trust Co.) and Messer Land and Development Company, Inc. (Messer Land). Queen City is the single member of QCI Real Estate Holdings LLC and QCI Capital Holdings LLC (QCI Capital). The accounts of these LLCs are included in the consolidated financial statements. Queen City owns and leases commercial real estate and buildings in California and conducts other business through its subsidiaries.

The Trust Co. is a licensed trust company that provides a full array of investment management and fiduciary services to individual investors, corporations, and estates. These services include investment management, personal trust services, custody services, and administration of employee benefit plans.

Messer Land's primary operation is a cattle ranch located in central California. The ranch breeds and raises cattle for sale at market.

Basis of Presentation

The consolidated financial statements include the accounts of Queen City Investments, Inc. and its subsidiaries (collectively, the company) after the elimination of all material intercompany transactions.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, fair value of investments, and the provision for current and deferred taxes. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

Fair Value Measurements

The company follows the provisions of accounting guidance required for fair value measurements and disclosures of financial assets and liabilities and nonfinancial items that are recognized or disclosed at fair value on a recurring and nonrecurring basis. This guidance defines fair value, establishes a fair value hierarchy for measuring fair value under U.S. GAAP, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, level 2 inputs consist of observable inputs other than quoted prices for identical assets, and level 3 inputs are unobservable and have the lowest priority. The company uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the company measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when level 1 or level 2 inputs were not available. The company's assessment of the significance of a particular input to the fair value measurements requires management's judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The fair value disclosed in Note 2 for securities held-to-maturity is based on quoted market prices in an inactive market and, therefore, is measured at level 2.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the consolidated financial statements, the company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2025 and 2024 and throughout the years then ended, the company maintained cash and cash equivalent balances in excess of federally insured limits. Historically, the company has not experienced any losses due to such concentration of credit risk.

Securities Held-to-Maturity

Securities held-to-maturity at December 31, 2025 and 2024 consist of state and municipal bonds and U.S treasury securities. In accordance with U.S. GAAP and based on the company's intentions regarding these instruments, the company has classified all marketable securities as held-to-maturity and has accounted for these investments at amortized cost. The amortization of premiums and discounts are recognized in interest income using a method that approximates the effective-interest method. The company has the ability and intent to hold the investments to maturity.

Allowance for Credit Losses

Securities Held-to Maturity and Accrued Interest Receivables

The allowance for credit losses on securities held-to-maturity is estimated using the current expected credit loss (CECL) methodology. Any expected credit loss is provided through the allowance for credit losses on held-to-maturity securities and is deducted from the amortized cost basis of the security so that the consolidated balance sheets reflect the net amount the company expects to collect. Nearly all the company's held-to-maturity securities are issued by the U.S. government and state entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Accordingly, there is a zero-credit loss expectation on these securities.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (Continued)

Securities Held-to Maturity and Accrued Interest Receivables (Continued)

Accrued interest receivable on held-to-maturity securities totaled approximately \$231,000 and \$166,000 as of December 31, 2025 and 2024, respectively, and is included within other assets on the company's consolidated balance sheets. This amount is excluded from the estimate of expected credit losses. Generally, held-to-maturity securities are classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When held-to-maturity securities are placed on nonaccrual status, unpaid interest credited to income is reversed against interest income.

Other Financial Instruments

The company measures expected credit losses on trust fees receivable and leasing commissions receivable, which are included in other assets on the consolidated balance sheets, and non-related party notes receivable based on a range of relevant information, such as past events, current conditions, and reasonable and supportable forecasts. Management considers forward-looking factors including, but not limited to, historical loss experience, current economic conditions, and changes in borrower creditworthiness. As of December 31, 2025 and 2024, there was no expected credit loss provision for these accounts.

The company has elected the practical expedient to assume that current conditions as of December 31, 2025 remain unchanged for the remaining life of receivables. The company has also elected the accounting policy to consider subsequent collection activity through March 30, 2026 when estimating expected credit losses. Receivables collected prior to that date are excluded from the allowance for credit losses.

Alternative Investments

The company has equity investments in certain private companies for which fair value is not readily determinable. These alternative investments are accounted for under the measurement alternative in accordance with Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments-Overall* (Topic 825). Under the measurement alternative, the company measures these non-marketable investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Alternative Investments (Continued)

Valuations of alternative investments are inherently more complex due to the lack of readily available market data. Recording upward and downward adjustments to the carrying value of alternative investments as a result of observable price changes requires quantitative assessments of the fair value of investments and involves the use of estimates. Management has performed a qualitative and quantitative analysis of each investment individually and determined no impairment or observable price change adjustments are required for the years ended December 31, 2025 and 2024.

Breeding Herd

The breeding herd is stated at cost. Depreciation is computed using the straight-line method over five years.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years. Leasehold improvements as lessee and tenant improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the lease term. Maintenance and repairs, including costs of minor replacements, are expensed as incurred.

Building and Land Held for Sale

During the year ended December 31, 2025, the company committed to a plan to sell a building and related land located in Goleta, California. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, these assets were reclassified from property and equipment to assets held for sale and measured at the lower of their carrying amount or estimated fair value less costs to sell. Upon reclassification, depreciation of the building was discontinued. In February 2025, the company entered into a Purchase and Joint Escrow Agreement with a buyer. The extended feasibility period concluded in June 2025, and the company expects to complete the sale during the year ending December 31, 2026.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the asset, the asset's carrying value is adjusted to fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as appropriate. Assets to be disposed of are separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value, less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale are presented separately in the appropriate asset and liability sections of the consolidated balance sheets. To date, no impairment has been recorded.

Revenue From Contracts with Clients

The company primarily derives its revenue from contracts with clients providing investment management, custodial, and trust services. As such, revenue for these services is recognized when the performance obligations related to the underlying transactions are completed. The company earned approximately 79% and 76% of its revenue from trust fees and commissions for providing these services during the years ended December 31, 2025 and 2024, respectively.

The company also derives revenue from contracts with lessors leasing commercial real estate and buildings in California. As such, revenue for these services is recognized on the first day of each month. The company earned approximately 12% and 14% of its revenue from rental income for the years ended December 31, 2025 and 2024, respectively.

A performance obligation is a promise in a contract to transfer a distinct good or service to the client. For all contracts with clients, the client contracts provide distinct services for an established rate, such as executing investment transactions, performing trust services, or providing use of leased space. For any contracts with multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative standalone selling price of each distinct service in the contract. The relative standalone selling price of each distinct service is generally observable as it is laid out in each contract.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue From Contracts with Clients (Continued)

A summary of receivables from contracts with clients is as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>	<u>January 1, 2024</u>
Trust fees	\$ 2,123,006	\$ 1,528,355	\$ 1,405,348
Other receivables	<u>154,644</u>	<u>203,046</u>	<u>217,574</u>
	<u>\$ 2,277,650</u>	<u>\$ 1,731,401</u>	<u>\$ 1,622,922</u>

Income Taxes

In filing its federal and state income tax returns, Queen City combines its results of operations with its subsidiaries. Current and deferred income taxes are allocated to Queen City and its subsidiaries as if each were a separate taxpayer. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Valuation allowances are provided against assets that are not likely to be realized.

The company had various deferred tax assets and liabilities made up primarily of the expected future tax effects of the current year’s state franchise and income tax accrual and the difference in depreciation method and investment basis for book and tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of the differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The company recognizes the tax benefits from uncertain tax positions taken or expected to be taken in a tax return 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. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first financial reporting period in which that threshold is no longer met. Changes in recognition or measurement will be reflected in the period in which the change in judgment occurs. The company had no material adjustments to its liabilities for unrecognized income taxes and believes its estimates are appropriate based on current facts and circumstances.

The company's income tax filings are subject to audit by various taxing authorities. The statute of limitations for federal and state purposes is three and four years, respectively. In evaluating the company's tax provisions and accruals, future taxable income, the reversal of temporary differences, interpretations, and tax planning strategies are considered.

There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the company transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations.

Reclassifications

Certain amounts in the 2024 consolidated financial statements have been reclassified to conform to the 2025 consolidated financial statement presentation.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

In July 2025, the FASB issued ASU 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*. The guidance introduces a practical expedient and an accounting policy election that simplify the application of the CECL model for current accounts receivable and current contract assets arising from revenue transactions accounted for under ASC 606, *Revenue from Contracts with Customers*.

The amendments allow all entities to elect a practical expedient under which current conditions as of the consolidated balance sheet date are assumed not to change over the remaining life of the asset, eliminating the need to develop and document reasonable and supportable forecasts when estimating expected credit losses for assets within the scope of the guidance. In addition, entities other than public business entities may elect an accounting policy to consider collection activity occurring after the consolidated balance sheet date but before the consolidated financial statements are available to be issued when estimating expected credit losses.

Management has elected early adoption of ASU 2025-05 during the current reporting period. Upon adoption, management elected the practical expedient and the related accounting policy to consider subsequent collections, as applicable. The adoption was applied prospectively, as required by the standard.

The adoption of ASU 2025-05 did not have a material impact on the company's financial position or results of operations.

Recently Issued Accounting Pronouncement Not Yet Adopted

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU enhances income tax disclosure requirements to improve transparency and decision usefulness, primarily through expanded disclosures related to income tax rate reconciliations and income taxes paid.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncement Not Yet Adopted (Continued)

For entities other than public business entities, the ASU requires additional qualitative disclosures regarding the nature and effect of significant reconciling items and jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The ASU also requires all entities to disclose, on an annual basis, (i) income (or loss) from continuing operations before income tax expense, disaggregated between domestic and foreign entities, (ii) income tax expense, disaggregated by federal (national), state, and foreign entities, and (iii) income taxes paid, net of refunds received, disaggregated by federal (national), state, foreign entities, and by individual jurisdictions that meet a quantitative threshold.

The ASU is effective for annual periods beginning after December 15, 2025. Early adoption is permitted. The amendments are required to be applied prospectively, with retrospective application permitted.

The company is currently evaluating the impact of the adoption of this ASU on its consolidated financial statement disclosures. The adoption of this ASU is not expected to have a material impact on the company's financial position, results of operations, or cash flows, as the amendments primarily affect disclosure requirements

Subsequent Events

In preparing these consolidated financial statements, the company's management has evaluated events and transactions for potential recognition or disclosure from the date of the consolidated balance sheets through March 30, 2026, the date the consolidated financial statements were available to be issued, and has determined that there were no items to disclose.

NOTE 2 – Securities Held-to-Maturity

Cost and fair value of securities held-to-maturity at December 31, 2025 are as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gain	Loss	
U.S. Treasury securities	\$ 20,780,197	\$ 95,249	\$ (71,799)	\$ 20,803,647

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 2 – Securities Held-to-Maturity (Continued)

Cost and fair value of securities held-to-maturity at December 31, 2024 are as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gain	Loss	
U.S. Treasury securities	\$ 20,725,462	\$ 27,233	\$ (430,145)	\$ 20,322,550

Securities held-to-maturity consists of the following:

	December 31,	
	2025	2024
Maturities due		
Within one year or less	\$ 7,701,506	\$ 7,050,484
After one year through five years	13,078,691	13,674,978
	\$ 20,780,197	\$ 20,725,462

NOTE 3 – Alternative Investments

The company, through QCI Capital, has contributed \$1,000,000 to CapRock Partners Fund IV, L.P. (Fund IV). To date, return of capital for Fund IV totaled approximately \$716,000. The company's investment represents approximately 5% of Fund IV. Fund IV is an investment vehicle of CapRock Partners, an investment firm focused on private industrial real estate.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 3 – Alternative Investments (Continued)

In March 2019, the company, through QCI Capital, purchased 500 preferred units of Nadavon Investment Partners LLC for \$500,000 through a confidential private placement. These preferred units entitle the company to receive a priority distribution of 100% of the amount invested, a cumulative preferred return equal to ten percent (10%) per annum, compounded annually, and 500 Class A common units. In August 2020, the company participated in the buyout of another shareholder's preferred units, increasing its investment by \$75,000 and adding 1,630 Class B common units. In March 2022, the company purchased an additional 455 Class B common units for a purchase price of \$125,125. Nadavon Investment Partners LLC is an investment vehicle of Nadavon Capital Partners, an investment firm focused on financial technology.

In February 2020, the company, through QCI Capital, entered into an agreement to become a limited partner of and to contribute up to \$500,000 to CapRock Partners Value Add Industrial Fund III, L.P. (Fund III). The company's investment commitment represents less than 1% of Fund III. Fund III focuses on investments in industrial real estate.

In April 2022, the company, through QCI Capital, purchased 318,000 Series F preferred units of Genea Energy Partners, Inc. for \$500,000 through a confidential private placement. The shares are convertible to common stock, are eligible for an 8% per annum dividend at the declaration of the Board of Directors of Genea Energy Partners, and carry liquidation preference to all previously issued preferred and common shares. Genea Energy Partners, Inc. automates overtime HVAC, sub-metered billing, and access control for owners of commercial real estate.

In October 2022, the company, through QCI Capital, entered into an agreement to become a limited partner of and contribute up to \$1,000,000 to CapRock Bridge Fund II (Fund II). The company's investment commitment represents approximately 3% of Fund II. Fund II focuses on investments in real estate for warehouses and distribution centers.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 3 – Alternative Investments (Continued)

A summary of alternative investments reported at cost, less impairment, is as follows:

	December 31,	
	2025	2024
CapRock Partners		
Fund II	\$ 200,594	\$ 220,000
Fund III, L.P	291,419	392,500
Fund IV, L.P.	284,294	284,294
Nadavon Investment Partners LLC	700,125	700,125
Genea Energy Partners, Inc.	499,999	499,999
	<u>\$ 1,976,431</u>	<u>\$ 2,096,918</u>

A summary of outstanding capital commitments for alternative investments as of December 31, 2025, is as follows:

	Capital Commitment	Funded Capital	Remaining Commitment
CapRock Partners			
Fund II	\$ 1,000,000	\$ (247,822)	\$ 752,178
Fund III, L.P	<u>500,000</u>	<u>(402,000)</u>	<u>98,000</u>
	<u>\$ 1,500,000</u>	<u>\$ (649,822)</u>	<u>\$ 850,178</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 4 – Breeding Herd

A summary of the breeding herd, at cost, is as follows:

	December 31,	
	2025	2024
Breeding herd	\$ 791,938	\$ 698,036
Less accumulated depreciation	(234,647)	(201,427)
	\$ 557,291	\$ 496,609

Depreciation expense for each of the years ended December 31, 2025 and 2024 totaled approximately \$179,000 and \$119,000, respectively.

NOTE 5 – Property and Equipment

A summary of property and equipment at cost, including rental properties, is as follows:

	December 31,	
	2025	2024
Buildings	\$ 10,237,205	\$ 11,370,615
Furniture and equipment	3,594,447	2,859,945
Building and leasehold improvements	4,779,754	2,975,682
Tenant improvements	5,476,151	7,847,778
	24,087,557	25,054,020
Less accumulated depreciation and amortization	(11,820,900)	(10,666,887)
	12,266,657	14,387,133
Construction in progress	5,876,479	3,517,539
Land	9,190,289	14,559,517
	\$ 27,333,425	\$ 32,464,189

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

NOTE 5 – Property and Equipment (Continued)

Depreciation and amortization expense for the years ended December 31, 2025 and 2024 totaled approximately \$1,154,000 and \$1,196,000, respectively.

Included in property and equipment at December 31, 2025 and 2024 is approximately \$33,350,000 and \$30,893,000, respectively, of productive rental properties with related accumulated depreciation of \$8,830,000 and \$7,943,000, respectively.

Construction in progress at December 31, 2025 relates to various ongoing improvements to rental properties expected to be completed in July 2026. The current estimated remaining budget for the improvement projects is approximately \$1.8 million. In addition, two of the improvement projects totaling approximately \$4.5 million were placed in service in January 2026.

NOTE 6 – Other Assets

Other assets consist of the following:

	December 31,	
	2025	2024
Leasing commissions, net	\$ 166,371	\$ 174,981
Interest receivable	249,994	187,589
Prepaid taxes	-	4,211
Prepaid expenses	203,423	81,874
Loan fees, net	-	702
Other receivables	20,642	-
Utility deposit	6,745	6,745
	\$ 647,175	\$ 456,102

NOTE 7 – Line of Credit

The company had a line of credit agreement with a non-related financial institution whereby it could borrow up to \$6,000,000. The line of credit accrued interest at the greater of the Prime Rate or 2.50%. There was no outstanding balance on the line of credit as of December 31, 2024. The agreement expired in February 2024 and was not renewed.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 8 – Leasing Arrangements

Lessee Arrangements

The company has various operating leases with affiliated and non-related parties for office space that expire at various dates through December 2027. The lease agreements include renewal options which can extend the lease terms up to four years. The exercise of these renewal options is at the sole discretion of the company, and only lease options that the company believes are reasonably certain to exercise are included in the measurement of the lease right-of-use assets and liabilities.

The following summarizes the line items in the consolidated balance sheets which include amounts for operating leases as follows:

	December 31,	
	2025	2024
Operating lease right-of-use assets:		
Affiliated parties	\$ 424,232	\$ 673,746
Other	-	5,083
	<u>\$ 424,232</u>	<u>\$ 678,829</u>
Operating lease liabilities:		
Affiliated parties	\$ 446,495	\$ 699,883
Other	-	5,242
	<u>\$ 446,495</u>	<u>\$ 705,125</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 8 – Leasing Arrangements (Continued)

Lessee Arrangements (Continued)

The components of operating lease expenses that are included in general business expenses in the consolidated statements of income were as follows:

	For the Year Ended December 31,	
	2025	2024
Operating lease costs:		
Affiliated parties	\$ 310,215	\$ 327,933
Other	5,083	60,995
Variable lease costs	140,482	75,723
	\$ 455,780	\$ 464,651

The following summarizes the cash flow information related to leases for the year ended December 31, 2025:

	Affiliated Parties	Other	Total
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 314,089	\$ 5,242	\$ 319,331
Noncash investing and financing activity:			
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 49,532	\$ -	\$ 49,532

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 8 – Leasing Arrangements (Continued)

Lessee Arrangements (Continued)

The following summarizes the cash flow information related to leases for the year ended December 31, 2024:

	<u>Affiliated Parties</u>	<u>Other</u>	<u>Total</u>
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 328,545	\$ 62,752	\$ 391,297
Noncash investing and financing activity:			
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 283,265	\$ -	\$ 283,265

The weighted-average remaining lease term and discount rate for operating leases were as follows:

	<u>For the Year Ended December 31,</u>	
	<u>2025</u>	<u>2024</u>
Weighted-average remaining lease term	2.00 years	2.83 years
Weighted-average discount rate	2.02%	1.95%

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 8 – Leasing Arrangements (Continued)

Lessee Arrangements (Continued)

The maturities of operating lease liabilities as of December 31, 2025 are as follows:

<u>Year Ending December 31,</u>	<u>Affiliated Parties</u>
2026	\$ 225,087
2027	<u>230,134</u>
Total minimum lease payments	455,221
Less amounts representing interest	<u>(8,726)</u>
Present value of minimum lease payments	<u>\$ 446,495</u>

Lessor Arrangements

The company leases commercial property to various tenants under noncancelable operating leases that expire at various dates through April 2034. The lease agreements provide for specific monthly payments plus reimbursement of a percentage share of common operating expenses.

The following is a summary of minimum future rental income under these noncancelable operating leases:

<u>Year Ending December 31,</u>	<u>Affiliated Parties</u>	<u>Other</u>	<u>Total</u>
2026	\$ 116,860	\$ 2,018,872	\$ 2,135,732
2027	66,734	1,623,526	1,690,260
2028	-	1,381,340	1,381,340
2029	-	1,500,340	1,500,340
Thereafter	<u>-</u>	<u>3,558,124</u>	<u>3,558,124</u>
	<u>\$ 183,594</u>	<u>\$ 10,082,202</u>	<u>\$ 10,265,796</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 9 – Provision for Income Taxes

The provision for income taxes consists of the following:

	For the Year Ended December 31,	
	2025	2024
Current:		
Federal	\$ 1,501,376	\$ 1,053,906
State	762,553	649,195
Deferred	(296,172)	33,215
Provision for income taxes	\$ 1,967,757	\$ 1,736,316

The following table indicates how the provision for income taxes varies from the expected rate:

	For the Year Ended December 31,	
	2025	2024
Expected provision:		
Federal	\$ 1,417,392	\$ 1,280,064
State	578,731	521,025
	1,996,123	1,801,089
Tax effect of permanent differences:		
Nondeductible expenses	2,293	3,140
Other	(30,659)	(67,913)
	(28,366)	(64,773)
Provision for income taxes	\$ 1,967,757	\$ 1,736,316

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 9 – Provision for Income Taxes (Continued)

Deferred tax assets and liabilities consist of the following:

	As of December 31,	
	2025	2024
Deferred tax assets		
Current year tax	\$ 71,069	\$ 85,477
Accrued payroll liabilities	220,359	-
	291,428	85,477
Deferred tax liabilities		
Excess of tax depreciation over book	(1,595,143)	(1,689,381)
Property taxes	(54,315)	(50,298)
	(1,649,458)	(1,739,679)
Net deferred tax liabilities	\$ (1,358,030)	\$ (1,654,202)

NOTE 10 – Related-Party Transactions

Under an exchange-of-services agreement, Farmers and Merchants Bank (the Bank), a related-party, provides administrative, accounting, and data processing services, as well as office space, to the Trust Co. The Trust Co. provides trustee and financial management services to the Bank and maintains deposits with the Bank. The exchange-of-services agreement provides for periodic settlement of amounts which may be owed by one party to the other; such amounts were not material at December 31, 2025 and 2024. The benefits received from the Bank, which were charged to operations during the years ended December 31, 2025 and 2024, totaled approximately \$634,000 and \$325,000, respectively.

The Bank leases a branch location from the company, which expires February 2026. Under the lease agreement, the company received approximately \$374,000 and \$362,000 of rental income and common area maintenance charges from the Bank for the years ended December 31, 2025 and 2024, respectively. The future rental income from the Bank is included in the summary of minimum future rentals in Note 8.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 10 – Related-Party Transactions (Continued)

The company leases office space from the Bank under various lease agreements, which expire at various dates through December 2027. Rent expense paid to the Bank under these agreements totaled approximately \$283,000 and \$277,000 for the years ended December 31, 2025 and 2024, respectively. The future minimum lease payments to the Bank are included in the summary of future minimum lease payments in Note 8.

Queen City and the Bank have a substantial percentage of their respective outstanding shares held by common shareholders, which include some directors of the Queen City and the Trust Co. In addition, certain officers and/or directors of Queen City and the Trust Co. are also officers and/or directors of the Bank.

NOTE 11 – Profit-Sharing and Safe Harbor Plan

The Trust Co. offers a profit-sharing plan and a safe harbor plan that covers substantially all eligible employees of the Bank and the Trust Co. The annual contributions are equal to a percentage of employee compensation ranging from 0% to 10%, as determined by the board of directors. The profit-sharing and safe harbor expense for the years ended December 31, 2025 and 2024 was approximately \$554,000 and \$421,000, respectively.

NOTE 12 – Commitments and Contingencies

Pledged Assets

Corporate assets of the Trust Co. with a book value of approximately \$799,000 for each of the years ended December 31, 2025 and 2024, have been pledged to the Treasurer of the State of California to ensure the faithful performance of fiduciary duties.

Assets under Trust Administration

The Trust Co. has trust assets under administration at fair market value of approximately \$6.24 billion and \$6.45 billion, representing 1,556 and 1,535 accounts as of December 31, 2025 and 2024, respectively. These amounts are not included in the accompanying consolidated balance sheets.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 12 – Commitments and Contingencies (Continued)

Assets under Trust Administration (Continued)

The Trust Co., as a fiduciary, has responsibility for the proper administration of all assets held in trust and, therefore, has a contingent liability for any loss of assets or breach of fiduciary duty. The company's management believes that the fiduciary insurance coverage held by the company is sufficient to cover any potential losses.

Legal

The company may be subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions is not expected to materially affect the financial position of the company.

NOTE 13 – Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

	For the Year Ended December 31,	
	2025	2024
Income taxes	\$ 1,873,829	\$ 1,807,066
Interest	\$ -	\$ -