

ALTURAS

REAL ESTATE FUND





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Independent Auditor's Report

To the Members
Alturas Real Estate Fund LLC
Boise Idaho

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Alturas Real Estate Fund LLC (the "Company"), which comprise the consolidated statement of net assets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years ended December 31, 2020 and 2019, and the schedule of investments as of December 31, 2020 and 2019 and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alturas Real Estate Fund LLC as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years ended December 31, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Denver, Colorado
April 30, 2021

CONSOLIDATED STATEMENTS OF NET ASSETS

December 31, 2020 and 2019

(US\$ in thousands)

	2020	2019
ASSETS:		
Real Estate Investments - At Fair Value:		
Real Estate and Improvements (Cost of \$169,025 and \$120,627)	\$ 176,719	\$ 127,439
Unconsolidated Real Estate Investments (Cost of \$299 and \$342)	299	342
Loans Receivable (Cost of \$1,985 and \$2,878)	1,985	2,878
Cash and Cash Equivalents	5,681	1,300
Restricted Cash	913	515
Accrued Investment Income	48	75
Prepaid Expenses and Other Assets	1,205	1,356
Total Assets	\$ 186,850	\$ 133,905

LIABILITIES AND NET ASSETS

LIABILITIES:

Mortgage Loans and Notes Payable (Less Unamortized Debt Issuance Costs of \$1,335 and \$966)	\$ 113,399	\$ 81,334
Members Subscription Payable and Temporary Notes	7,762	205
Member Notes Payable	7,380	8,722
Accrued Real Estate Expenses and Taxes	1,657	2,075
Accrued Incentive Fees	479	190
Accrued Expenses - Related Party	562	534
Member Distributions Payable	760	664
Other Liabilities	2,582	1,846
Total Liabilities	134,581	95,570

Commitments and Contingencies (Note 5)

NET ASSETS:

Alturas Real Estate Fund LLC Net Assets	45,748	33,896
Noncontrolling Interests	6,521	4,439
Net Assets	\$ 52,269	\$ 38,335

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2020 and 2019

(US\$ in thousands)

	2020	2019
INVESTMENT INCOME:		
Revenue from Real Estate	\$ 18,647	\$ 12,925
Interest Income on Loans Receivable	407	509
Total Revenues	19,054	13,434
EXPENSES:		
Real Estate Expenses and Taxes	5,550	4,011
Interest Expense	5,322	3,723
Administrative Expenses	696	422
Investment Management Fees	685	472
Total Expenses	12,253	8,628
Net Investment Income	6,801	4,806
Net Realized and Unrealized Gain:		
Net Realized Gain from Sale of Real Estate Investments	1,928	1,195
Net Unrealized Gain on Fair Value of Real Estate Investments	883	2,537
Net Realized and Unrealized Gain	2,811	3,732
Increase in Net Assets Resulting from Operations	9,612	8,538
Less: Portion Attributable to Noncontrolling Interests	(1,002)	(767)
Increase in Net Assets Resulting from Operations Attributable to Alturas Real Estate Fund LLC Account	8,610	7,771
Amounts Attributable to Alturas Real Estate Fund LLC Account		
Net Investment Income	5,960	4,206
Net Realized and Unrealized Gain	2,650	3,565
Increase in Net Assets Resulting from Operations Attributable to Alturas Real Estate Fund LLC Account	\$ 8,610	\$ 7,771

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended December 31, 2020 and 2019

(US\$ in thousands)	Sponsor/ Managing Member	Investor Members	Noncontrolling Interest	Total
Net Assets - December 31 - 2018	\$ 1,868	\$ 24,840	\$ 2,332	\$ 29,040
From Operations:				
Net Investment Income	75	4,131	600	4,806
Net Realized and Unrealized Gain	58	3,507	167	3,732
Increase in Net Assets Resulting from Operations	133	7,638	767	8,538
From Capital Transactions:				
Contributions	-	5,041	1,823	6,864
Distributions	(970)	(4,654)	(483)	(6,107)
Increase in Net Assets Resulting from Capital Transactions	(970)	387	1,340	757
Incentive Allocation to Managing Member	1,708	(1,708)	-	-
Increase in Net Assets	871	6,317	2,107	9,295
Net Assets - December 31, 2019	\$ 2,739	\$ 31,157	\$ 4,439	\$ 38,335
From Operations:				
Net Investment Income	103	5,857	841	6,801
Net Realized and Unrealized Gain	42	2,608	161	2,811
Increase in Net Assets Resulting from Operations	145	8,465	1,002	9,612
From Capital Transactions:				
Contributions	-	10,893	2,060	12,953
Distributions	(1,541)	(6,110)	(980)	(8,631)
Increase in Net Assets Resulting from Capital Transactions	(1,541)	4,783	1,080	4,322
Incentive Allocation to Managing Member	1,829	(1,829)	-	-
Increase in Net Assets	433	11,419	2,082	13,934
Net Assets - December 31, 2020	\$ 3,172	\$ 42,576	\$ 6,521	\$ 52,269

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019

(US\$ in thousands)

	2020	2019
Cash Flows From Operating Activities:		
Net Increase in Net Assets Resulting from Operations	\$ 9,612	\$ 8,538
Adjustments to Reconcile Net Assets Resulting from Operations to Net Cash Flows from Operating Activities:		
Gain on Sale of Real Estate Investments	(1,928)	(1,195)
Unrealized Gain on Fair Value of Real Estate Investments	(883)	(2,537)
Interest Expense Attributable to Amortization of Debt Issuance Costs	264	176
Change in Assets and Liabilities:		
Accrued Investment Income	455	118
Prepaid Expenses and Other Assets	151	(761)
Accrued Real Estate Expenses and Taxes	(418)	942
Accrued Incentive Fees	289	47
Accrued Expenses - Related Party	28	269
Other Liabilities	736	763
Net Cash Flow Provided by Operating Activities	8,306	6,360
Cash Flows From Investing Activities:		
Capital Expenditures and Real Estate Investments	(19,498)	(17,631)
Proceeds from the Sale of Real Estate Investments	6,922	3,324
Equity Method Real Estate Investments	43	(93)
Funding of Loans Receivable	(4,795)	(5,397)
Principal Payments Received on Loans Receivable	5,688	5,042
Net Cash Flow (Used for) Investing Activities	(11,640)	(14,755)
Cash Flows From Financing Activities:		
Proceeds from Mortgage Loans and Notes Payable	3,987	4,401
Principal Payments on Mortgage Loans and Notes Payable	(5,445)	(2,676)
Payment of Debt Issuance Costs	(634)	(587)
Proceeds from Members Subscriptions	7,125	205
Proceeds from Issuance of Member Notes	7,797	7,800
Repayment of Member Notes	(1,895)	(200)
Contributions from Members	-	500
Contributions from Non-controlling Interests	2,060	1,823
Distributions to Members	(3,902)	(2,660)
Distributions to Non-controlling Interests	(980)	(483)
Net Cash Flow Provided by Financing Activities	8,113	8,123
Net Change in Cash, Cash Equivalents, and Restricted Cash	4,779	(272)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	1,815	2,087
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 6,594	\$ 1,815

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

Years ended December 31, 2020 and 2019

(US\$ in thousands)

	2020	2019
Supplemental Disclosure of Cash Flow Information		
Cash Payments for Interest	\$ 5,198	\$ 3,680
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Mortgage Loans and Notes Payable Refinanced	\$ 4,929	\$ 3,341
Real Estate Investments Acquired Through Mortgage Loans and Notes Payable	\$ 33,893	\$ 26,931
Reinvested Distributions	\$ 3,421	\$ 2,630
Member Distributions Recorded as a Payable	\$ 760	\$ 664
Member Contributions Through Subscriptions Payable	\$ 80	\$ 1,660
Member Contributions Through Conversion of a Member Note	\$ 7,160	\$ 250
Member Contributions Through Reinvested Member Note Interest	\$ 21	\$ 12
Member Contributions Through Transfer of Members Subscriptions	\$ 232	\$ -
Investor Note Subscription through Subscriptions Payable	\$ 125	\$ -
Reinvested Member Note Interest	\$ 408	\$ 53

SCHEDULE OF INVESTMENTS

December 31, 2020 and 2019

<i>(US\$ in thousands)</i>				December 31, 2020		December 31, 2019	
Investment	Ownership	City, State	FT ² (000's) Unless Otherwise Indicated (Unaudited)	Cost Basis	Fair Value	Cost Basis	Fair Value
Real Estate and Improvements and Unconsolidated Real Estate Investments							
Retail							
Eagle Marketplace	CI - 100%	Eagle, Idaho	60,024	\$ 5,636	\$ 9,074	\$ 5,481	\$ 8,918
Mission Village	CI - 95.50%	Wenatchee, Washington	32,950	5,144	5,005	4,890	4,614
Adelmann Building	CI - 90.44%	Boise, Idaho	15,436	2,222	2,308	2,210	2,210
Parkway Plaza	CI - 91.73%	Idaho Falls, Idaho	56,264	3,392	4,322	4,387	5,395
5804 Fairview	CI - 96.45%	Boise, Idaho	22,500	-	-	2,372	2,848
Dutch Bros Colorado Springs	CI - 100% *	Colorado Springs, Colorado	824	-	-	1,557	1,894
Eagle Island	CI - 81.10%	Meridian, Idaho	10,204	3,175	3,175	2,554	2,555
Decker Lake	CI - 97.58%	Salt Lake City, Utah	52,387	7,505	7,864	7,436	7,436
Sandcreek Plaza	CI - 100%	Idaho Falls, Idaho	35,903	3,515	3,507	3,406	3,406
Shops at 38th	CI - 50.00%	Phoenix, Arizona	23,021	6,139	6,139	-	-
Retail Total				36,728	41,394	34,293	39,276
% of Total Real Estate Investments				21.44%	23.12%	27.69%	30.06%
Industrial							
Westpark	CI - 80.00%	Boise, Idaho	117,510	6,974	8,226	6,452	6,714
Mountain Home	CI - 66.70%	Mountain Home, Idaho	30,478	1,424	1,424	1,424	1,424
297 Wycoff	CI - 100%	Twin Falls, Idaho	23,000	2,032	2,032	-	-
Industrial Total				10,430	11,682	7,876	8,138
% of Total Real Estate Investments				6.09%	6.53%	6.36%	6.23%
Office							
1444 Entertainment	CI - 95.01%	Boise, Idaho	78,372	13,092	13,632	13,070	13,611
110 Main	EMI - 40.00%	Boise, Idaho	6,420	299	299	342	342
Siete I	CI - 81.00%	Phoenix, Arizona	57,933	8,930	8,515	8,819	9,084
The Ashby on Osborn	CI - 86.79%	Phoenix, Arizona	89,167	12,983	11,345	11,935	11,935
Cottonwood Plaza	CI - 100%	Boise, Idaho	43,142	4,720	5,481	4,485	4,485

SCHEDULE OF INVESTMENTS (CONT.)

December 31, 2020 and 2019

<i>(US\$ in thousands)</i>			FT ² (000's) Unless Otherwise Indicated (Unaudited)	December 31, 2020		December 31, 2019	
Investment	Ownership	City, State		Cost Basis	Fair Value	Cost Basis	Fair Value
Office (cont.)							
Siete II	CI - 90.00%	Phoenix, Arizona	53,936	\$ 6,187	\$ 6,916	\$ 5,948	\$ 5,948
7733 Emerald	CI - 57.00%	Boise, Idaho	4,424	563	563	559	559
Presidio	CI - 100%	Colorado Springs, Colorado	81,222	13,148	13,983	12,822	12,822
2206 Whitley	CI - 100%	Fruitland, Idaho	16,000	1,845	1,845	1,768	1,768
4200 Hawthorne	CI - 50.10%	Pocatello, Idaho	78,225	11,619	11,619	11,619	11,619
Office Total				73,386	74,198	71,367	72,173
% of Total Real Estate Investments				42.84%	41.45%	57.63%	55.24%
Flex**							
1550 Tech Lane	CI - 100%	Boise, Idaho	105,438	8,346	9,310	7,433	8,194
Centennial Tech Center	CI - 100%	Colorado Springs, Colorado	110,405	15,422	15,422	-	-
Airport Center	CI- 80.63%	Chandler, Arizona	94,545	16,958	16,958	-	-
IGC	CI- 100%	Spokane, Washington	75,786	8,054	8,054	-	-
Flex Total				48,780	49,744	7,433	8,194
% of Total Real Estate Investments				28.47%	27.79%	6.00%	6.27%
Total Real Estate and Improvements and Unconsolidated							
Real Estate Investments				169,324	177,018	120,969	127,781
% of Total Real Estate Investments				98.84%	98.89%	97.68%	97.80%
Loans Receivable							
Loans to Affiliate	Loan		43 Units	1,843	1,843	2,818	2,818
Other Notes Receivable	Loan			142	142	60	60
Total Loans Receivable				1,985	1,985	2,878	2,878
% of Total Real Estate Investments				1.16%	1.11%	2.32%	2.20%
Total Real Estate Investments				\$ 171,309	\$ 179,003	\$ 123,847	\$ 130,659

*Upon construction completion and sale of the Colorado Springs Dutch Bros, our development partner was entitled to 15.00% of the gain on the sale.

** Investments with multipurpose space that can either be a combination of or rotate between industrial, office or showroom space.

CI - Consolidated Real Estate Investment EMI - Equity Method Real Estate Investment

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 1 - NATURE OF BUSINESS

Alturas Real Estate Fund, (the “Fund” or the “Company”), was formed pursuant to an Operating Agreement (“Agreement”) April 6, 2015. Inception of operations began on May 29, 2015, when the first investor contribution was received. The Fund was formed for the purpose of acquiring, developing, managing, and selling investment properties. The Fund is managed by Alturas Capital Partners, LLC (“Manager”) pursuant to the Alturas Real Estate Fund LLC Operating Agreement. The Fund focuses on value-add, core plus, and development real estate investments. The Fund targets middle-market properties throughout the Inland Northwest and Intermountain West regions of the country.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and should be read in conjunction with the operating agreement of the Fund which is organized as a Delaware limited liability company. The Fund is an investment company and follows the accounting and reporting guidance in the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) Topic 946, *Financial Services – Investment Companies*.

The consolidated financial statements represent the consolidation of the Fund and its Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts and transactions for the following entities:

<u>Entities Legal Name</u>	<u>Properties Name</u>
110 Main LLC	110 Main
Alturas Eagle Marketplace, LLC	Eagle Marketplace
Alturas Westpark, LLC	Westpark
Alturas Mission Village, LLC	Mission Village
Alturas 1444 Entertainment, LLC	1444 Entertainment
Alturas Siete I, LLC	Siete I
Alturas Adelman, LLC	Adelman Building
Alturas 1550 Tech Lane, LLC	1550 Tech Lane
Alturas Parkway Plaza, LLC	Parkway Plaza
Alturas Country Club Manor, LLC	The Ashby on Osborn
Colorado DB One, LLC	Dutch Bros Colorado Springs
Alturas 5804 Fairview, LLC	5804 Fairview
Alturas Cottonwood Plaza, LLC	Cottonwood Plaza
Alturas Eagle Island, LLC	Eagle Island
Alturas Siete II, LLC	Siete II
Alturas Decker Lake, LLC	Decker Lake
4200 Hawthorne, LLC	4200 Hawthorne
7733 Emerald, LLC	7733 Emerald
Alturas Presidio, LLC	Presidio
2206 Whitley, LLC	2206 Whitley
Alturas Sandcreek, LLC	Sandcreek Plaza
Alturas Mountain Home, LLC	Mountain Home
Alturas Centennial Tech Center, LLC	Centennial Tech Center
297 Wycoff, LLC	297 Wycoff
Alturas Shops at 38th, LLC	Shops at 38th
Alturas Airport Center, LLC	Airport Center
Alturas IGC, LLC	IGC

Variable Interest Entities

Variable Interest Entities (“VIEs”) are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is

generally the entity with (i) the power to direct the activities that most significantly impact the VIE's economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

110 Main LLC is a real estate investment of which the Fund owns 40% and an outside party owns the remaining 60%. Management determined that 110 Main LLC is a VIE given certain debt guarantees which have been made by the Fund as well as various other parties. The Fund does not have the power to direct the activities that most significantly impact 110 Main LLC's economic performance, therefore the Fund is not the primary beneficiary of the entity. As such, 110 Main LLC is reported under the equity method in the accompanying consolidated financial statements (see Note 5 for further information).

Noncontrolling Interests

Accounting Standards Codification ("ASC") 810-10 requires that noncontrolling interests in the Fund's consolidated subsidiaries be reclassified to net assets and that the net increase or decrease in net asset value from operations be adjusted to include amounts attributable to noncontrolling interests.

Additionally, losses attributable to the noncontrolling interest in a subsidiary may exceed their interests in the subsidiary's equity. Therefore, the noncontrolling interest shall continue to be allocated their share of losses even if that allocation results in a deficit noncontrolling interest balance.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

The real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates, and interest and inflation rates. As a result, determining real estate and investment values involves many assumptions. Amounts ultimately realized from each investment may vary significantly from the fair values presented.

Investments in Real Estate and Improvements

Investments in properties are carried at fair value (see Note 3 for further information). Properties owned are initially recorded at cost (i.e., the purchase price plus closing costs). Development costs (including interest incurred to finance development and construction costs) and major renovations are capitalized as a component of cost. Once an asset is placed into service, routine maintenance and repairs are charged to expense as incurred.

Loans Receivable

Loans receivable are recorded at fair value (see Note 3 for further information). Loan acquisition and loan origination costs are capitalized as a component of cost.

Cash

Cash consists of cash held at financial institutions. As of December 31, 2020 and 2019, the Fund did not hold any cash equivalents. The Fund invests its cash primarily in deposits with commercial banks. At times, cash balances held at one or more banks and financial institutions may exceed federally insured amounts. The Fund believes it mitigates credit risk by depositing cash in multiple, major financial institutions.

Restricted Cash

Amounts classified as restricted represent cash held in escrow for tax, insurance, and other fees and expenses related to operating the Fund's properties, as well as tenant security deposits. The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts shown in the statement of cash flows:

(US\$ in Thousands)

	2020	2019
Cash and Cash Equivalents	\$ 5,681	\$ 1,300
Restricted Cash	913	515
Total Cash, Cash Equivalents, and Restricted Cash	\$ 6,594	\$ 1,815

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method. Debt issuance costs are included within Mortgage Loans and Notes Payable on the

accompanying Consolidated Statements of Net Assets. Amortization of debt issuance costs is included in Interest Expense in the accompanying Consolidated Statements of Operations.

Interest Rate Swaps

The Fund manages exposure to changes in market interest rates through the use of derivative instruments. The Fund's use of derivative instruments is limited to highly effective fixed for floating rate interest swap agreements. In accordance with ASC 815-10, "Derivatives and Hedging," the Fund utilized the private company alternative and recognized all derivative financial instruments in its financial statements at settlement value, as the derivative instruments are not entered into for trading or speculative purposes.

Revenue Recognition

The Fund leases real estate to qualified tenants. All leases with tenants are classified as operating leases. Minimum rents are recognized when earned over the lease term. Prepaid rental payments are recognized as a liability and are allocated to income when earned.

Tenant reimbursements for common area maintenance and other recoverable costs are recognized in the period assessed. Lease termination fees are recognized when the related leases are cancelled early, and the Fund has no continuing obligation to provide services to such former tenants.

Interest income is accrued as earned in accordance with the contractual terms of the corresponding loan agreements.

Income Taxes

The Fund is taxed as a partnership under the Internal Revenue Code. In lieu of federal income taxes, the members of the LLC are taxed on their proportionate share of the LLC's taxable income. Therefore, no provision or liability for federal income taxes related to the Fund has been included in these consolidated financial statements.

The Fund evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. There were no unrecognized tax benefits as of December 31, 2020 and 2019.

Net Realized and Unrealized Gains and Losses

Realized gains are reported upon the sale of the investment in accordance with ASC 610-20. Unrealized gains and losses on fair value of real estate investments includes the previously recorded gains and/or losses as shown below:

(US\$ in Thousands)

	2020	2019
Realized Gain from Sale of Real Estate Investments	\$ 1,928	\$ 1,195
Net Current Year Unrealized Gain on Fair Value of Real Estate Investments	1,926	3,495
Less: Previously Recognized Unrealized Gains on Properties Sold During the Year	(1,043)	(958)
Net Unrealized Gain	<u>\$ 883</u>	<u>\$ 2,537</u>

New and Recently Adopted Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"). ASU 2014-09 is intended to enable users of financial statements to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. On January 1, 2019, the Fund adopted ASU 2014-09. Substantially all the Fund's revenue relates to leasing activities that are accounted for under ASC 840, Leases, and are therefore not subject to ASC 606. The Fund did not record any adjustments to current or prior period as a result of the adoption of this standard.

On January 1, 2019, the Fund adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 610-20, *Other Income – Gains and Losses from Derecognition of Nonfinancial Assets*, which was issued as part of FASB's Accounting Standards Update 2014-19. Which clarifies the scope of 610-20 and includes guidance on partial sales of nonfinancial assets.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 is intended to improve financial reporting on leasing transactions. Regarding tenant reimbursement revenue, the Fund plans to elect the lessor practical expedient upon the effective date of ASU 2016-02, Leases, which for the Fund will be for the year ended December 31, 2021. Under the expedient the Fund anticipates combining the lease and non-lease components (tenant reimbursement revenue) and as such will account for the combined components under ASU 2016-02. On April 8, 2020, due to the Covid-19 outbreak, the FASB approved a proposal to amend the effective date of ASU 2016-02 for one year. The Fund plans to adopt ASU 2016-02 for the year ended December 31, 2022.

NOTE 3 - FAIR VALUE MEASUREMENTS

ASC 820 establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Fund. Unobservable inputs are inputs that reflect the Fund's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access. Valuation adjustment and block discounts are not applied to Level 1 instruments.

Level 2 — Valuations based on quoted prices in less active, dealer, or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 — Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present information about the Fund's assets measured at fair value as of December 31, 2020 and 2019.

(US\$ in Thousands)

	2020			
	(Level 1)	(Level 2)	(Level 3)	Total
Real Estate and Improvements	\$ -	\$ -	\$ 176,719	\$ 176,719
Real Estate Joint Ventures	-	-	299	299
Loans Receivable	-	-	1,985	1,985
	\$ -	\$ -	\$ 179,003	\$ 179,003
	2019			
	(Level 1)	(Level 2)	(Level 3)	Total
Real Estate and Improvements	\$ -	\$ -	\$ 127,439	\$ 127,439
Real Estate Joint Ventures	-	-	342	342
Loans Receivable	-	-	2,878	2,878
	\$ -	\$ -	\$ 130,659	\$ 130,659

The table below sets forth a summary of changes in the fair value of the Fund's Level 3 assets for the year ended December 31, 2020 and 2019:

<i>(US\$ in Thousands)</i>	Real Estate and Improvements	Unconsolidated Real Estate Investments	Loans Receivable	Total Level 3 Investments
Beginning Balance, January 1, 2019	\$ 82,469	\$ 249	\$ 2,523	\$ 85,241
Real Estate Acquisitions	37,229	93	-	37,322
Real Estate Improvements	7,333	-	-	7,333
Proceeds from Sale of Real Estate Investments*	(3,324)	-	-	(3,324)
Principal Payments Received	-	-	(5,042)	(5,042)
Funding of Loans	-	-	5,397	5,397
Total Realized Gain on Sale of Real Estate Investments	1,195	-	-	1,195
Total Unrealized Gain on Real Estate Investment	2,537	-	-	2,537
Ending Balance, December 31, 2019	\$ 127,439	\$ 342	\$ 2,878	\$ 130,659
Real Estate Acquisitions	48,160	(43)	-	48,160
Real Estate Improvements	5,231	-	-	5,188
Net Proceeds from Sale of Real Estate Investments*	(6,922)	-	-	(6,922)
Principal Payments Received	-	-	(5,688)	(5,688)
Funding of Loans	-	-	4,795	4,795
Total Realized Gain on Sale of Real Estate Investments	1,928	-	-	1,928
Total Unrealized Gain on Real Estate Investment	883	-	-	833
Ending Balance, December 31, 2020	\$ 176,719	\$ 299	\$ 1,985	\$ 179,003

* Net of closing costs, commissions, and loan prepayment fees

The following is a description of the valuation techniques used for items measured at fair value:

Real Estate and Improvements

The fair value of consolidated Real Estate and Improvements is based upon acquisition price (for recent acquisitions), estimated sales proceeds (net of estimated closing costs and commissions for projects under contract), or the Manager's internal fair value estimates. Such values have been identified for investment and portfolio management purposes only. The estimated fair values determined by the Manager may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller.

The Fund's internal fair value estimates are determined using a single period capitalization method whereby net operating income is divided by a capitalization rate and further adjusted for estimated transaction costs. Key assumptions in the fair value calculation include capitalization rates, vacancy factors, and estimated transaction costs. These key assumptions are derived from comparable market transactions as well as other financial and industry data, and are based on the location, type and nature of each property, and current and anticipated market conditions. Fair value measurements take into consideration the estimated effect of physical depreciation; therefore, historical cost depreciation and amortization on real estate related assets has been excluded from net investment income in deriving fair value of each investment. Significant increases (decreases) in any of the above inputs and assumptions in isolation could result in a significantly lower (higher) fair value. Although the estimated fair values represent subjective estimates, management believes these estimated fair values are reasonable approximations of market prices and the aggregate estimated value of investments in real estate is fairly presented at December 31, 2020 and 2019.

The values of real estate properties undergoing development have been prepared giving consideration to costs incurred to date and to key development risk factors and entrepreneurial profits.

The following table summarizes the valuation techniques and significant unobservable inputs and the ranges of values for those inputs used to determine the fair value of Real Estate and Improvements at December 31, 2020 and 2019, respectively:

Valuation Methodologies Used to Value Real Estate and Improvements (US\$ in thousands)	Fair Value	Unobservable Inputs	Range of Significant Input Value	Weighted Average
2020				
Acquisition Price	\$ 67,231	N/A	N/A	N/A
Single Period Capitalization Method	109,488	Capitalization Rate	7.00% to 8.75%	7.85%
Total Real Estate and Improvements	\$ 176,719			
2019				
Acquisition Price	\$ 66,167	N/A	N/A	N/A
Single Period Capitalization Method	61,272	Capitalization Rate	5.50% to 8.75%	8.02%
Total Real Estate and Improvements	\$ 127,439			

Unconsolidated Real Estate Investments

The Fund's ownership in Unconsolidated Real Estate Investments is accounted for using the equity method of accounting (see Note 5 for further information). Under this method, the investment is initially recorded at cost, that is the price paid for the Fund's ownership in the investment. Subsequent to the purchase, the Fund's share of the investment's periodic income or loss (including any unrealized gains or losses when the investment value is adjusted to fair value) will result in income or loss from the investment and an increase or decrease, respectively, to the investment recorded by the Fund. Distributions from the investment result in a decrease to the investment recorded by the Fund. The Fund held an interest in one unconsolidated real estate investment as of December 31, 2020 and 2019, 110 Main LLC and the value thereof approximated costs.

Loans Receivable

Fair value is determined on the basis of estimated market interest rates for loans of comparable quality and maturity. As the Fund's loans are short term in nature (less than 12 months), fair value approximated cost (principal plus interest accrued on the loans receivable balance). The Fund evaluates the collectability of the balances based upon historical experience and the specific circumstances of individual notes, with an allowance for uncollectible amounts being provided if necessary. As of December 31, 2020 and 2019 no allowance for uncollectible amounts was recorded.

NOTE 4 - NEW REAL ESTATE INVESTMENTS AND DIVESTITURES

New Investments During 2020

The following were the real estate investments made by the Fund during the year ended December 31, 2020 (see also the Schedule of Investments for further detail):

Acquisition of Centennial Tech Center

On February 5, 2020, the Fund acquired a property that consists of two single-story flex-office buildings totaling 110 thousand square feet located in Colorado Springs, CO. The property is owned by Alturas Centennial Tech Center, LLC and the Fund holds a 100% interest in that entity. The total acquisition price was approximately \$15.0 million. In connection with the purchase, Alturas Centennial Tech Center, LLC incurred debt totaling \$11.2 million. The property is a multi-tenant property and was fully leased as of the date of the acquisition.

Acquisition of 297 Wycoff

On February 21, 2020, the Fund acquired a 23 thousand square foot industrial property on 2.42 acres located in Twin Falls, ID. The property is owned by 297 Wycoff, LLC and the Fund holds a 100% interest in that entity. The total acquisition price was approximately \$2 million. In connection with the purchase, 297 Wycoff, LLC incurred debt totaling \$1.2 million. The property is a single tenant property and was fully leased as of the date of the acquisition. See Note 12 for information related to the sale of this property.

Acquisition of Shops at 38th

On August 13, 2020, the Fund and two unaffiliated third parties acquired a 23 thousand square foot neighborhood retail property on 1.67 acres located in Phoenix, AZ. The property is owned by Alturas Shops at 38th, LLC and the Fund holds an 50.00% interest in that entity. The remaining interest is held by two unaffiliated third parties. The total acquisition price was approximately \$6.1 million. In connection with the purchase, Alturas Shops at 38th, LLC incurred debt totaling \$4.3 million. The property is a multi-tenant property and was fully leased as of the date of the acquisition.

Acquisition of Airport Center

On December 18, 2020, the Fund and two unaffiliated third parties acquired two flex-office buildings totaling 95 thousand square feet on 11.10 acres located in Chandler, AZ. The property is owned by Alturas Airport Center, LLC and the Fund holds an 80.63% interest in that entity. The remaining interest is held by two unaffiliated third parties. The total acquisition price was approximately \$16.9 million. In connection with the purchase, Alturas Airport Center, LLC incurred debt totaling \$12.1 million. The property is a multi-tenant property and was fully leased as of the date of the acquisition.

Acquisition of IGC

On December 21, 2020, the Fund acquired a 76 thousand square foot industrial flex property located in Spokane, WA. The property is owned by Alturas IGC, LLC and the Fund holds a 100% interest in that entity. The total acquisition price was approximately \$7.1 million. In connection with the purchase, Alturas IGC, LLC incurred debt totaling \$8.0 million. The property is a multi-tenant property and was 71% leased as of the date of the acquisition.

Real Estate Divestitures During 2020

The following were the real estate divestitures made by the Fund during the year ended December 31, 2020:

5804 Fairview

On August 14, 2018, the Fund and an unaffiliated third party acquired a 23 thousand square foot vacant retail property located in Boise ID. This property was owned by Alturas 5804 Fairview, LLC and the Fund held a 96.45% interest in that entity. On June 12, 2020, Alturas 5804 Fairview, LLC sold the property for \$3.4 million which resulted in a \$0.8 million gain net of transactions fees and commissions.

Portion of Parkway Plaza

On February 13, 2018, the Fund and an unaffiliated third party acquired a 75 thousand square foot retail property located in Idaho Falls ID. This property is owned by Alturas Parkway Plaza, LLC and the Fund holds a 91.73% interest in that entity. The remaining interest is held by an unaffiliated third party. On May 21, 2020, Alturas Parkway Plaza, LLC sold a 19 thousand square foot suite to an owner occupant for \$1.7 million which resulted in a \$0.5 million gain net of transactions fees and commissions. The Fund continues to operate the remaining 56 thousand square feet at this property.

Colorado DB One

On August 31, 2018, the Fund formed Colorado DB One, LLC to acquire a 0.9-acre lot for the purpose of constructing an 824 square foot Dutch Bros in Colorado Springs, CO. The Fund owned 100.00% of Colorado DB One, LLC. Upon construction completion and sale of the Colorado Springs Dutch Bros, the development partner was entitled to 15.00% of the gain on sale. On November 30, 2020, Colorado DB One, LLC sold the property for \$2.3 million which resulted in a \$0.7 million gain net of transactions fees and commissions.

New Investments During 2019

The following were the real estate investments made by the Fund during the year ended December 31, 2019 (see also the Schedule of Investments for further detail):

On March 1, 2019, the Fund formed Alturas Decker Lake, LLC, to acquire a 52 thousand square foot retail property located in Salt Lake City, UT. The Fund owns a 97.58% of Alturas Decker Lake, LLC.

On April 10, 2019, the Fund formed 4200 Hawthorne, LLC, to acquire a 78 thousand square foot office property located in Pocatello, ID. The Fund owns 50.10% of 4200 Hawthorne, LLC.

On April 30, 2019, the Fund formed 7733 Emerald, LLC, to acquire a 4 thousand square foot office property located in Boise, ID. The Fund owns 57.00% of 7733 Emerald, LLC.

On July 31, 2019, the Fund formed Alturas Presidio, LLC, to acquire an 81 thousand square foot Class A office building located in Colorado Springs, CO. The Fund owns 100% of Alturas Presidio, LLC.

On August 2, 2019, the Fund formed 2206 Whitley, LLC, to acquire a 16 thousand square foot retail center located in Fruitland, ID. The Fund owns 100% of 2206 Whitley, LLC.

On August 19, 2019, the Fund formed Alturas Sandcreek, LLC, to acquire a 36 thousand square foot retail center located in Idaho Falls, ID. The Fund owns 100% of Alturas Sandcreek, LLC.

On November 15, 2019, the Fund formed Alturas Mountain Home, LLC, to acquire a 30 thousand square foot office and industrial building located in Mountain Home, ID. The Fund owns 66.70% of Alturas Mountain Home, LLC. This property is subject to a repurchase agreement whereby the tenant will repurchase the property from the Fund no later than five years from the date of this acquisition at a predetermined purchase price.

Real Estate Divestitures During 2019

The following were the real estate divestitures made by the Fund during the year ended December 31, 2019:

On April 28, 2017, the Fund formed Idaho DB One, LLC, to acquire land for a development project to construct a Dutch Bros in Caldwell, ID. The Fund owned 95.00% of Idaho DB One, LLC. The property was sold on January 2, 2019 for a gain of \$0.4 million.

On December 23, 2016, the Fund formed Alturas 595 Washington, LLC, to acquire an 11 thousand square foot industrial building in Twin Falls, Idaho. The Fund owned 88.52% of Alturas 595 Washington, LLC. The property was sold on June 17, 2019 for a gain of \$0.2 million.

NOTE 5 - UNCONSOLIDATED REAL ESTATE INVESTMENTS

On October 8, 2015, the Fund acquired a 40% ownership interest in 110 Main LLC, which owns a 6 thousand square foot office building in Boise, Idaho. The purchase price was \$0.3 million. The building was a historic home that has been renovated for office use. The cost of that renovation through December 31, 2020, was approximately \$1.6 million which has been funded with \$0.8 million of debt and \$0.8 million of equity contributions from the Partnership: \$0.3 million from the Fund and \$0.5 million from an unaffiliated third-party.

The following is a summary of the fair value basis assets and liabilities underlying the Fund's unconsolidated joint venture investment (110 Main LLC) at December 31, 2020 and 2019:

(US\$ in Thousands)

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 18	\$ 12
Real Estate and Improvements	1,587	1,488
Mortgage Loans (less unamortized debt issuance costs of \$15 and \$0)	(843)	(582)
Other Liabilities	(14)	(65)
Net Assets	<u>\$ 748</u>	<u>\$ 853</u>
AREF's Share of Real Estate Joint Venture Net Assets	<u>\$ 299</u>	<u>\$ 342</u>

At December 31, 2020, the Fund has a variable interest in 110 Main, LLC, as a result of the Fund's guarantee of a portion of 110 Main, LLC's long-term debt. The Fund's maximum exposure to loss as of December 31, 2020 with respect to its relationship with 110 Main, LLC, is approximately \$0.8 million, the amount of the debt guarantee provided.

NOTE 6 - MEMBERS SUBSCRIPTION PAYABLE, TEMPORARY NOTES, AND MEMBER NOTES

Member subscriptions payable consists of funds received from unaffiliated investors. These funds are either held as member subscription payable (if the funds have not yet been deployed) or temporary notes (equity funds that have been deployed but have not been subscribed as equity).

Member Subscriptions Payable

From the point in time when funds are received by the Fund from investors until the funds are deployed, the funds remain in the Fund's subscription bank account which is a legally separate bank account and is segregated from all other bank accounts used by the Fund. The subscription bank account is used solely for the purposes of holding funds transferred to the Fund from investors prior to deployment of those funds as either member note investments or equity subscriptions. The Fund held pending equity subscriptions balances of \$100 thousand and \$0 as of December 31, 2020 and December 31, 2019. The Fund held pending note subscriptions of \$0 and \$125 thousand as of December 31, 2020 and December 31, 2019, respectively which are reflected in Member subscription payable and temporary notes.

Temporary Notes

When investor subscription funds are deployed, if those funds are equity subscriptions, the Member Subscriptions Payables balance converts to a temporary note which accrues interest at 6-8% per annum. The temporary note will convert to an equity subscription on the first day following the quarter end in which the temporary note matures. The term and interest rate applicable to temporary notes varies. During 2020, the term and interest rate ranged from 6-15 months and 6-8% interest, respectively. The Fund recorded a temporary note liability of \$7.6 million and \$80 thousand as of December 31, 2020 and December 31, 2019, respectively which are reflected in Member subscription payable and temporary notes.

Member Notes

The Fund also issues short-term and long-term member notes which accrue interest at 6-8% per annum with terms of 12, 24, up to 60 months. Investments in these notes will first be held in the subscription account from the time funds are received until the point in time the funds are deployed. At the time of deployment, the funds are converted into member notes. Member notes with remaining term of less than 12 months as of the end of the period are classified as short-term member notes on the Statement of Net Assets. Member notes with remaining term of greater than 12 months as of the end of the period are classified as long-term member notes on the Statement of Net Assets.

In addition, the Fund issues short-term member notes under a line of credit program whereby investors loan money to the Fund at 8% on a revolving basis for an agreed upon period. Other than the revolving feature of the line of credit, this program is subject to the same subscription terms and conditions applicable to member notes.

See the table below for the short-term and long-term member note balances as of December 31, 2020 and 2019:

<i>(US\$ in Thousands)</i>	2020	2019
Short-Term Member Notes	\$ 6,053	\$ 6,495
Long-Term Member Notes	\$ 327	\$ 2,227
Line of Credit	\$ 1,000	\$ -
Total Member Notes	\$ 7,380	\$ 8,722

Future principal payments of member notes and notes payable which are outstanding as of December 31, 2020 are as follows:

Years Ending December 31, (US\$ in Thousands)

2021	\$ 7,053
2022	100
2023	227
2024	-
Total	\$ 7,380

NOTE 7 - MORTGAGE LOANS AND NOTES PAYABLE

Mortgage loans and notes payable consists of the following as of December 31, 2020 and 2019 (at carrying value):

<i>(US\$ in Thousands)</i>	<u>2020</u>	<u>2019</u>
4.14% Mortgage Note Payable (Alturas Eagle Marketplace, LLC), due in monthly installments of \$20 including interest, to October 2025, guaranteed by related parties and secured by the related real estate. No guaranty fee was charged.	\$ 3,877	\$ 3,957
3.10% Mortgage Note Payable (Alturas Westpark, LLC), due in monthly installments of \$30 including interest, to November 2027, guaranteed by the Fund and secured by the related real estate. Loan was refinanced in November 2020. During the 12 months of the new loan term, the loan is interest only. No guaranty fee was charged.	6,162	5,027
4.00% Mortgage Note Payable (Alturas Mission Village, LLC), due in monthly installments of \$17 including interest, to October 2024, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	3,370	3,420
3.70% Mortgage Note Payable (Alturas 1444 Entertainment, LLC), due in monthly installments of \$46 including interest, to September 2025, guaranteed by the Fund and secured by the related real estate. The interest rate for the loan was reduced in April 2020. No guaranty fee was charged.	8,256	8,489
4.47% Mortgage Note Payable (Alturas Siete I, LLC), due in monthly installments of interest only payments through June 2019, followed by monthly installments of \$30 including interest, to June 2027 secured by the related real estate.	5,786	5,880
4.57% Mortgage Note Payable (Alturas 1550 Tech Lane, LLC), due in monthly installments of \$22 including interest, to August 2022, guaranteed by related party and the Fund and secured by the related real estate. No guaranty fee was charged.	3,605	3,699
Variable interest rate Tenant Improvement Loan Payable, based on Wall Street Journal prime rate plus 0.50% (3.75% at December 31, 2020) (Alturas 1550 Tech Lane, LLC), due in monthly installments of \$10 including interest calculated based on the Federal Home Loan Bank of Des Moines 3 Year Fixed Rate plus 2.40% to August 2022, with the remaining principle due in August 2022, secured by the related real estate. A guaranty fee of \$20 was charged.	1,949	1,191
4.26% Mortgage Note Payable (Alturas Adelman, LLC), due in monthly installments of \$8 including interest, to August 2027, guaranteed by related parties and the Fund and secured by the related real estate. No guaranty fee was charged.	1,470	1,499
3.50% Mortgage Note Payable (Alturas Parkway Plaza, LLC), due in monthly installments of \$11 including interest, to February 2021, guaranteed by a related party and the Fund and secured by the related real estate. The interest rate for the loan was reduced in May 2020. No guaranty fee was charged.	2,109	3,027
4.65% Mortgage Note Payable (Alturas Country Club Manor, LLC), due in monthly installments of interest only payment to March 2020, followed by monthly installments of \$44 including interest through March 2023, followed by monthly installments of \$48 based on a variable interest rate as determined by the 5 Year Long Term Fixed Rate Bullet rate as made available daily by the Federal Home Loan Bank of Des Moines plus 2.65% to March 2028, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	7,501	7,047
4.76% Mortgage Note Payable (Alturas 5804 Fairview, LLC), due in monthly installments of \$11 including interest, to August 2023, guaranteed by a related party and the Fund and secured by the related real estate. A guaranty fee of \$19 was charged by a related party in 2018 in connection with the origination of this loan. Interest rate is subject to change each 5 years based on the Federal Home Loan Bank of Des Moines 5 Year Regular Fixed Rate plus 1.75%. This note was paid in full in June 2020.	-	1,797

Mortgage Loans and Notes Payable Continued (US\$ in thousands)

	2020	2019
3.50% Mortgage Note Payable (Alturas Cottonwood Plaza, LLC), due in monthly installments of \$17 including interest, to September 2023, guaranteed by a related party and the Fund and secured by the related real estate. The interest rate for the loan was reduced in April 2020. Interest rate is subject to change each 5 years based on the Federal Home Loan Bank of Des Moines 5 Year Regular Fixed Rate plus 2.35%. A guaranty fee of \$40 was charged.	\$ 3,271	\$ 3,354
3.50% Tenant Improvement Loan (Alturas Cottonwood Plaza, LLC), due in monthly installments of \$2 including interest, to September 2023, guaranteed by a related party and the Fund and secured by the related real estate. No guaranty fee was charged.	225	-
5.15% Mortgage Note Payable (Alturas Siete II, LLC), due in monthly installments of \$22 including interest, to January 2029, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	3,990	4,049
Variable interest rate Construction Loan, based on one month LIBOR plus a 3% spread (4.69% as of December 31, 2019) (Colorado DB One, LLC), due in monthly installments of interest only payments to March 2020, guaranteed by related parties and the Fund and secured by the related real estate. In March 2019 the Company agreed with the lender to extend the loans maturity date to June 2023. A guaranty fee of \$11 was charged in 2019 in connection with the origination of this loan. This loan was paid in full in November 2020.	-	963
Variable interest rate Construction Loan, based on 30-day LIBOR plus a 2.40% spread (2.54% as of December 31, 2020) (Alturas Eagle Island, LLC), due in monthly installments of interest only payments to October 2021, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	2,215	1,503
5.00% Mortgage Note Payable (Alturas Decker Lake, LLC), due in monthly installments of \$30 including interest, to February 2024, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	4,846	4,952
5.00% Tenant Improvement Loan (Alturas Decker Lake, LLC), due in monthly installments of interest only payments to September 2020, followed by monthly installments of principal and interest payments of \$3 each to February 2024, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	151	84
3.50% Mortgage Note Payable (Alturas 4200 Hawthorne, LLC), due in monthly installments of \$44 including interest, to May 2026, guaranteed by the Fund and secured by the related real estate. The interest rate for the loan was reduced in July 2020. No guaranty fee was charged.	8,387	8,584
3.50% Mortgage Note Payable (7733 Emerald, LLC), due in monthly installments of \$2 including interest, to May 2024, followed by monthly installments of \$2 including interest calculated based on the Federal Home Loan Bank of Des Moines 5 Year Regular Fixed Rate Advance plus 2.35% to May 2029, guaranteed by the Fund and secured by the related real estate. The interest rate for the loan was reduced in June 2020. No guaranty fee was charged.	367	376
3.95% Mortgage Note Payable (Alturas Presidio, LLC), due in monthly installments of \$42 including interest to July 2026, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	8,937	9,084
3.75% Mortgage Note Payable (2206 Whitley, LLC), due in monthly installments of \$7 to February 2030. The interest rate for the loan was reduced in September 2020. Guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	1,224	1,013
3.75% Mortgage Note Payable (Alturas Sandcreek, LLC), due in monthly installments of \$12 including interest, to August 2029, guaranteed by the Fund and secured by the related real estate. The interest rate for the loan was reduced in May 2020. No guaranty fee was charged.	2,300	2,361

Mortgage Loans and Notes Payable Continued (US\$ in thousands)	2020	2019
5.49% Mortgage Note Payable (Alturas Mountain Home, LLC), due in monthly installments of \$7 including interest, to November 2024, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	\$ 914	\$ 944
3.25% Mortgage Note Payable (Alturas Airport Center, LLC), due in monthly installments of \$54 including interest, to December 2023, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	11,090	-
6.00% Promissory Note (Alturas Airport Center, LLC), due in monthly interest only installments of \$5, to December 2022, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	1,000	-
3.88% Mortgage Note Payable (Alturas Centennial Tech Center, LLC), due in monthly interest only installments through February 2022, followed by monthly installments of \$53 to February 2030, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	11,242	-
3.60% Mortgage Note Payable (Alturas IGC, LLC), due in monthly installments of \$26 including interest, to January 2026, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	5,075	-
3.65% Mortgage Note Payable (Alturas Shops at 38th, LLC), due in monthly installments of \$22 including interest, to August 2025, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	4,244	-
Variable interest rate Mortgage Note Payable, based on one month LIBOR plus a 2.25% spread (2.39% as of December 31, 2020) (297 Wycoff, LLC), due in monthly installments of principal and interest payments to February 2023, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.	1,171	-
	<u>114,734</u>	<u>82,300</u>
Less debt issuance costs	(1,335)	(966)
Mortgage Loans and Notes Payable (Less Unamortized Debt Issue Costs)	\$ 113,399	\$ 81,334

Future principal payments of mortgage loans and notes payable which are outstanding as of December 31, 2020 are as follows:

Years Ending December 31, (US\$ in Thousands)

2021	\$	6,592
2022		8,977
2023		17,078
2024		10,567
2025		16,106
Thereafter		55,414
Total	\$	114,734

On October 7, 2019 Alturas Mission Village, LLC was party to a swap agreement for a notional amount of \$3,535,000 at a fixed rate of 4.00%. The swap agreement, which requires paying and settling monthly, effectively converted \$3,535,000 of floating rate debt to fixed rate debt. The swap agreement terminates October 4, 2024. For the years ended December 31, 2020 and 2019, the net amount paid to the counterparty of the interest rate swap was \$28 thousand and \$2.7 thousand, respectively.

On July 30, 2019 Alturas Presidio, LLC was party to a swap agreement for a notional amount of \$9,150,000 at a fixed rate of 3.95%. The swap agreement, which requires paying and settling monthly, effectively converted \$9,150,000 of floating rate debt to fixed rate debt. The swap agreement terminates July 31, 2026. For the years ended December 31, 2020 and 2019, the net amount paid to the counterparty of the interest rate swap was \$118.2 thousand and \$2.1 thousand, respectively.

On November 17, 2020 Alturas Westpark, LLC was party to a swap agreement for a notional amount of \$6,162,000 at a fixed rate of 3.10%. The swap agreement, which requires paying and settling monthly, effectively converted \$6,162,000 of floating rate debt to fixed rate debt. The swap agreement terminates November 1, 2027. For the year ended December 31, 2020, the net amount paid to the counterparty of the interest rate swap was \$0.

The tables above excludes the mortgage loan outstanding on 110 Main given that property is accounted for as an equity method investment and as such, the mortgage balance is not included in the mortgage loans and notes payable line on the Statement of Net Assets. For the years ended December 31, 2020 and 2019, the mortgage balance on 110 Main was \$859 thousand and \$582 thousand, respectively. As of December 31, 2020 the mortgage interest rate is 3.73% and monthly payments are \$4,485 with an expiration date of June 15, 2030.

The Fund has various financial covenants relating to mortgage loans and notes payable. The most significant of these covenants include debt service coverage ratios and liquidity covenants. As of December 31, 2020, the Fund and its properties were in compliance with the applicable loan covenants.

NOTE 8 - MINIMUM FUTURE LEASE REVENUES

As of December 31, 2020, minimum future rental payments to be received from our tenants under non-cancelable operating leases having a term of more than one year are as follows:

Year Ending December 31, (US\$ in Thousands)

2021	\$	18,163
2022		16,288
2023		14,650
2024		12,128
2025		7,950
Thereafter		16,099
Total	\$	85,278

NOTE 9 - DISTRIBUTIONS AND ALLOCATIONS OF PROFITS AND LOSSES

All distributions and allocations of profits and losses are made pursuant to the operating agreement of the Fund and are generally allocated and distributed as follows:

First, 8% per annum preferred return on each member's unreturned capital contributions. Preferred return is calculated pro rata in proportion to the member's capital contribution and the period of time that the member's capital contribution is outstanding.

Second, 70% to the members, pro rata in proportion to their ownership interest and 30% to the Manager. The Manager earned \$1,541 thousand in allocations of profits for the year ended December 31, 2020 and \$970 thousand in allocations of profits for the year ended December 31, 2019.

NOTE 10 - RELATED PARTY TRANSACTIONS

Loans Receivable

An affiliated entity of the Fund borrows capital under short-term promissory notes to finance the construction of single-family homes. The table below summarizes the lending activity between the Fund and its affiliate as of December 31, 2020 and 2019.

(US\$ in Thousands)

	Year Ended December 31,	
	2020	2019
Beginning Loan Receivable Balance	\$ 2,818	\$ 2,523
Borrowings	4,714	5,337
Repayments	(5,688)	(5,042)
Ending Loans Receivable Balance	\$ 1,844	\$ 2,818
Interest income on loans receivable	\$ 395	\$ 492
Accrued interest income as of December 31	\$ 48	\$ 75
Maximum Loan Receivable Balance During the Fiscal Year	\$ 2,788	\$ 3,018

Asset Management Fees and Performance Income

Under the terms of the agreement between the Fund and the Manager, the Manager is entitled to an asset management fee amounting to 1.5% of committed capital which is accrued monthly and paid quarterly after the close of each quarter. Also, as described further in Note 9 above, the Manager is entitled to performance income which is 30% of Fund earnings above 8%. Management fees and performance income for the years ended December 31, 2020 and 2019 are summarized below:

(US\$ in Thousands)

	Year Ended December 31,	
	2020	2019
Asset Management Fees	\$ 685	\$ 472
Performance Income	\$ 1,541	\$ 970

As of December 31, 2020, Asset Management Fees payable were \$64 thousand and Performance Income payable was \$479 thousand. As of December 31, 2019, Asset Management Fees payable were \$133 thousand and Performance Income payable was \$190 thousand.

Fees for Services Performed by the Manager

In addition, the Manager performs various services for the benefit of the Fund which the Fund would otherwise engage outside parties to perform. Under the terms of the Private Placement Memorandum, the Fund is permitted to engage the Manager to perform these and other services. Fees paid to the Manager for these services are priced at market rates for similar services. Such services performed by the Manager for the benefit of the Fund during the years ended December 31, 2020 and 2019 include the following:

Property Management Services – The Fund owns and operates commercial real estate in various locations in the Intermountain West and Inland Northwest regions of the United States. Property management services are required to ensure that properties are properly maintained, our customers (tenants) receive the services specified in their lease agreements, and books and records for each property are maintained accurately. As such, the Fund engages various property managers to perform these services, including the Manager and its affiliates in cases where the Manager is able to provide excellent service. These services range from 3-6% for property management and accounting services depending on complexity and \$55 per hour for property maintenance services. Included in property management services are accounting services and maintenance services. The Fund engages the Manager to perform various accounting services for the Fund itself including financial oversight, investor relations, and tax and audit compliance management services. Pricing for these services is at or below the amounts that a qualified outside party would charge to perform these services.

Project Management Services – The Fund frequently acquires value add property. As such, additional capital expenditures including capital improvements to the building, landscaping, and signage are often required. Additionally, the Fund often agrees to provide tenant improvements to induce new or existing tenants to lease or renew space in our facilities. These projects require oversight and management, and the Fund engages various outside parties to perform these services including in certain cases, the Manager when the Manager is well suited for the project. Project management fees range from 3-10% depending on the level of involvement the Manager has in the project. The fee range was determined based on actual fees charged by third parties for similar projects in the past.

Loan Brokerage Services – Properties within the Fund are financed primarily with outside secured debt. It is customary to pay loan origination fees to the parties involved in originating the loans including banks and loan brokers. In certain cases, the Manager will originate loans for new projects based on the expertise and lending relationships it has with appropriate lenders and in such cases, will charge the Fund for these loan brokerage services. Fees for loan brokerage services range from 0.5-2.0% of the loan value in total for all brokers involved including, when applicable, the Manager. This range is based on actual fees charged by third parties in past transactions and other factors such as the level of complexity and size of the loan.

Due Diligence Services – The Fund requires due diligence services on new investments and engages the Manager to perform these services. Costs may be charged by the Manager to the Fund to compensate the Manager for costs incurred along with time spent. These costs principally include fees for lease abstraction services, actual travel costs, financial modeling, site inspection, and tenant interviews.

Lease Brokerage Services – It is customary for brokers involved in originating leases to charge lease commissions for their services. In certain situations, particularly on lease renewals, the Manager will perform those lease origination services and receive compensation for these services. Fees for these services paid to the Manager range from 3-7.5% based on the complexity and amount of time required for the brokerage services. The fee range charged by the Manager, when applicable, is based on actual fees charged by third parties for similar services in past transactions.

Development Services – For ground-up development projects, it is customary for real estate developers to charge a development fee to compensate them for the work required to coordinate the project between working with architects, engineers, general contractors, municipality staff members, etc. in order to get the project approved and construction completed. These projects require oversight and management, and the Fund engages various outside parties to perform these services including in certain cases, the Manager when the Manager is well suited for the project. Development fees range from 3-10% depending on the complexity of the project.

The table below summarizes the fees paid for these services for the years ended December 31, 2020 and 2019:

	Year Ended December 31,	
	2020	2019
<i>(US\$ in Thousands)</i>		
Fees for Services Performed		
Property Management Services	\$ 451	\$ 320
Project Management Services	95	37
Loan Brokerage Services	370	184
Due Diligence Services	71	74
Lease Brokerage Services	93	125
Development Services	50	100
Total Fees for Services Performed	\$ 1,130	\$ 840

As of December 31, 2020 and 2019, amounts payable to the Manager for the fees for services performed were \$386 thousand and \$324 thousand, respectively.

Fund Expenses Paid by the Manager

From time to time, an affiliated entity paid expenses on behalf of the Fund (generally travel expenses) to be reimbursed at a later date. For the year ended December 31, 2020 and 2019, the Fund reimbursed \$54 thousand and \$13 thousand, respectively, for Fund expenses paid by an affiliated entity. As of December 31, 2020 and 2019, the Fund owed \$0 and \$1 thousand, respectively, in reimbursement to the affiliated entity.

Other Related Party Transactions

A family member of one of the executives of the Manager is an attorney who the Fund engaged to perform various legal services for the Fund and its properties. During the year ended December 31, 2020 and 2019, the Fund incurred a total of \$44 thousand and \$99 thousand of legal expenses, respectively to that attorney. As of December 31, 2020 and 2019, the Fund owed \$9 thousand and \$28 thousand, respectively to that attorney.

An executive of the Manager is a minority shareholder in a company which rents space from Alturas Parkway Plaza which was acquired in 2018. As of December 31, 2020, and 2019 the Fund collected \$44 thousand and \$42 thousand in rent from that company during the time the executive was employed by the Manager. As of December 31, 2020 and 2019, Alturas Parkway Plaza, LLC had collected \$3 thousand and \$4 thousand, respectively of prepaid rent each year from that tenant.

Alturas Property Services, LLC, an affiliate of the Manager, provided property management services to the Fund properties and unrelated parties beginning in 2020. During the year ended December 31, 2020 the Fund incurred \$37 thousand for these services. As of December 31, 2020 the Fund owed \$10 thousand to Alturas Property Services, LLC. Alturas Property Services, LLC also rents space from Alturas Siete I, LLC. As of December 31, 2020 the Fund collected \$7 thousand in rent from the company.

The Fund engages a third-party administrator to perform various tasks with respect to fund administration and investor communications. The third-party administrator is an affiliate of three investors in the Fund. For the years ended December 31, 2020 and 2019, the Fund incurred a total of \$71 thousand and \$60 thousand, respectively for these services. As of December 31, 2020 and 2019, the Fund owed \$6 thousand at the end of each period to the fund administrator.

As disclosed in Note 7, certain owners of the Manager of the Fund have personally guaranteed mortgage loans. During the year ended December 31, 2020 and 2019, guarantee fees of \$0 and \$11 thousand were paid to related parties.

A non-controlling owner of three of the Fund's properties performs various services for the properties in which he holds an ownership interest such as project management services and lease brokerage services. During the year ended December 31, 2020 and 2019, the Fund incurred a total of \$90 thousand and \$41 thousand for these services, respectively. As of December 31, 2020 and 2019, the Fund owed \$56 and \$41 thousand, respectively to the non-controlling owner.

Various executives and employees of the Manager have invested in the Fund. Their temporary note balance as of December 31, 2020 and 2019 was \$0 and \$45 thousand, respectively. The combined equity balance of executives and employees of the Manager and Alturas Capital (partial owner of the Manager) investing in the Fund as of December 31, 2020 and 2019 was \$0.8 million and \$0.6 million, respectively.

NOTE 11 - FINANCIAL HIGHLIGHTS*(US\$ in Thousands)*

	Year Ended December 31,	
	2020	2019
PER UNIT OPERATING PERFORMANCE(*):		
Net Asset Value, Beginning of Period	\$ 1,459	\$ 1,394
INCOME FROM INVESTMENT OPERATIONS:		
Net Investment Income, Before Management Fees	226	191
Net Realized and Unrealized Gain on Investments	75	118
Total from Investment Operations, Before Management Fees	301	309
Less: Management Fees	28	22
Total from Investment Operations	273	287
Distributions	(245)	(221)
Net Asset Value, End of Period	\$ 1,487	\$ 1,459
Total Return, Before Management Fees, Net of Incentive Allocation to Manager (a):	26.74%	27.79%
Total Return, After Management Fees, Net of Incentive Allocation to Manager (a):	26.46%	27.51%

RATIOS / SUPPLEMENTAL DATA(*):

Ratios to Average Net Assets (b):

Total Expenses	32.55%	28.47%
Incentive Allocation	5.71%	6.44%
Total Expenses and Incentive Allocation	38.26%	34.91%
Net Investment Income (Does Not Include Net Realized and Unrealized Gains)	18.07%	15.86%

(*) All amounts are shown net of amounts allocated to noncontrolling interests and incentive allocation to manager member

(a) Total Return, before/after management fees is calculated by geometrically linking quarterly returns which are calculated using the formula below:

$$\frac{\text{Investment Income Before/After Management Fees} + \text{Net Realized and Unrealized Gains/Losses} - \text{Actual and Estimated Incentive Allocation to Manager}}{\text{Beg. Net Asset Value} + \text{Time Weighted Contributions} - \text{Time Weighted Distributions}}$$

(b) Average net assets are based on end of month net assets

NOTE 12 - SUBSEQUENT EVENTS**Acquisition of Northcreek**

On January 29, 2021, the Fund and two unaffiliated third parties acquired a three-building office complex totaling 325 thousand square feet on 16.61 acres located in Colorado Springs, CO. The property is owned by Alturas Northcreek, LLC and the Fund holds a 99.36% interest in that entity. The remaining interest is held by two unaffiliated third parties. The total acquisition price was approximately \$47.2 million. In connection with the purchase, Alturas Northcreek, LLC incurred debt totaling \$34.2 million. The property is a multi-tenant property and was 87% leased as of the date of the acquisition.

Acquisition of Garden Gateway

On February 19, 2021, the Fund acquired two single-story flex industrial/office buildings and one two-story office building totaling 115 thousand square feet on 11.91 acres located in Colorado Springs, CO. The property is owned by Alturas Garden

Gateway, LLC and the Fund holds a 100% interest in that entity. The total acquisition price was approximately \$15.6 million. In connection with the purchase, Alturas Garden Gateway, LLC incurred debt totaling \$10 million. The property is a multi-tenant property and was 92% leased as of the date of the acquisition.

Sale of Whitley

On August 2, 2019, the Fund formed 2206 Whitley, LLC, to acquire a 16 thousand square foot retail center located in Fruitland, ID. The Fund owned 100% of 2206 Whitley, LLC. On March 4, 2021, 2206 Whitley, LLC sold 2206 Whitley for \$2.3 million for a gain of \$0.3 million.

Sale of Wycoff

On February 21, 2020, the Fund acquired a 23 thousand square foot industrial property on 2.42 acres located in Twin Falls, ID. The property is owned by 297 Wycoff, LLC and the Fund holds a 100% interest in that entity. On January 1, 2021, an unaffiliated third party invested in 297 Wycoff, LLC resulting in the Fund holding 86.90% interest in the entity. The remaining interest was held by an unaffiliated third party. On April 2, 2021, 297 Wycoff, LLC sold 297 Wycoff for \$3.9 million for a gain of \$1.6 million.

Presidio Ownership

On January 1, 2021, two unaffiliated third parties invested in Alturas Presidio, LLC resulting in the Fund holding 98.28% interest in the entity. The remaining interest is held by the aforementioned unaffiliated third parties.

Parkway Refinance

On March 24, 2021, Alturas Parkway Plaza, LLC's mortgage note payable was refinanced. The mortgage note payable increased to \$2.4 million due in monthly installments of \$12,147 including interest, to March 2026, guaranteed by the Fund and secured by the related real estate. Interest rate is fixed at 3.50%. No guaranty fee was charged.

Ashby Rate Reduction

On March 23, 2021, Alturas Country Club Manor, LLC received an interest rate reduction from the lender resulting in a 3.70% mortgage note payable, due in monthly installments of \$41,537 including interest through April 2023, followed by monthly installments based on a variable interest rate as determined by the 5 Year Long Term Fixed Rate Bullet rate as made available daily by the Federal Home Loan Bank of Des Moines plus 2.65% to March 2028, guaranteed by the Fund and secured by the related real estate. No guaranty fee was charged.

The Fund has evaluated subsequent events through April 30, 2021, the date, which the financial statements were available to be issued.