ALTURAS
REAL ESTATE FUND

Consolidated Financial Statements | December 31, 2016

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CONTENTS

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, 2016, the related consolidated statement of operations, changes in net assets, and cash flows for the period from May 29, 2015 (Inception) to December 31, 2016, and the schedule of investments as of December 31, 2016 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 audit. We conducted our audit 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, 2016, and the results of its operations and its cash flows for the period May 29, 2015 (Inception) to December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Denver, Colorado
October 31, 2017

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CONSOLIDATED STATEMENT OF NET ASSETS

December 31, 2016

		2016
ASSETS		
Real Estate Investments - At fair value:		
Real estate and improvements (cost: December 31, 2016 $31,899,993)	$	33,503,050
Unconsolidated real estate joint ventures (cost: December 31, 2016 - $151,158)		151,158
Loans receivable (cost: December 31, 2016 - $2,038,897)		2,038,897
Cash and Cash Equivalents		1,277,729
Accrued Investment Income		152,003
Prepaid Expenses and Other Assets		257,946
Total Assets	**$**	**37,380,783**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Mortgage Loans and Notes Payable (less unamortized debt issuance costs: December 31, 2016 - $286,957)	$	23,911,400
Members Subscription Payable		2,635,000
Accrued Real Estate Expenses and Taxes		353,729
Accrued Incentive Fees		55,457
Accrued Expenses - Related Party		52,109
Distributions Payable		221,563
Other Liabilities		457,100
Total Liabilities	**$**	**27,686,358**
Commitments and Contingencies (Note 8)		
NET ASSETS		
Alturas Real Estate Fund LLC net assets	$	9,232,400
Noncontrolling interests		462,025
Net assets	**$**	**9,694,425**

CONSOLIDATED STATEMENT OF OPERATIONS

April 6, 2015 (Inception) to December 31, 2016

INVESTMENT INCOME:		
Revenue from real estate	$	1,909,923
Interest income on loans receivable		671,634
Total Revenues	**$**	**2,581,557**
EXPENSES:		
Real estate expenses and taxes		453,766
Interest expense		592,199
Administrative expenses		362,224
Investment management fees		115,168
Total Expenses	**$**	**1,523,357**
Net Investment Income	**$**	**1,058,200**
Net Realized and Unrealized Gain:		
Realized gain from sale of real estate	$	765,433
Unrealized gain on fair value of investments in real estate and improvements		1,603,057
Net Realized and Unrealized Gain	**$**	**2,368,490**
Increase in Net Assets Resulting from Operations	$	3,426,690
Less: portion attributable to noncontrolling interests		(153,522)
Increase in Net Assets Resulting from Operations Attributable to Alturas Real Estate Fund LLC Account	**$**	**3,273,168**
Amounts Attributable to Alturas Real Estate Fund LLC Account		
Net investment income	$	991,309
Net realized and unrealized gain		2,281,859
Increase in Net Assets Resulting from Operations Attributable to Alturas Real Estate Fund LLC Account	**$**	**3,273,168**

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

December 31, 2016

	Alturas Real Estate Fund LLC			
	Managing Member	**Members**	**Noncontrolling Interest**	**Total**
Net Assets - April 6, 2015	$ --	$ --	$ --	$ --
From Operations:				
Net investment income	70,725	$920,584	66,891	1,058,200
Net realized and unrealized gain	147,765	2,134,094	86,631	2,368,490
Increase in net assets resulting from operations	**$ 218,490**	**$ 3,054,678**	**$ 153,522**	**$ 3,426,690**
From Capital Transactions:				
Contributions	407,551	7,207,749	348,783	7,964,083
Distributions	(478,221)	(1,177,847)	(40,280)	(1,696,348)
Increase in net assets resulting from capital transactions	**$ (70,670)**	**$ 6,029,902**	**$ 308,503**	**$ 6,267,735**
Incentive allocation to managing member	765,733	(765,733)	--	--
Increase in Net Assets	913,553	8,318,847	462,025	9,694,425
Net Assets - December 31, 2016	**$ 913,553**	**$ 8,318,847**	**$ 462,025**	**$ 9,694,425**

CONSOLIDATED STATEMENT OF CASH FLOWS

December 31, 2016

Cash Flows From Operating Activities:		
Net increase in net assets resulting from operations	$	3,426,690
Adjustments to reconcile net assets resulting from operations to net cash flows from operating activities:		
Gain on sale of real estate investments		(765,433)
Unrealized gain on fair value of investments in real estate and improvements		(1,603,057)
Interest expense attributable to amortization of debt issuance costs		19,454
Change in assets and liabilities:		
Accrued investment income		(152,003)
Prepaid expenses and other assets		(257,946)
Accrued real estate expenses and taxes		353,729
Accrued incentive fees		55,457
Accrued expenses - related party		52,109
Other liabilities		457,100
Net cash flow used by operating activities	**$**	**1,586,100**
Cash Flows From Investing Activities:		
Capital expenditures on real estate investments	$	(9,389,560)
Investment in real estate joint ventures		(151,158)
Net proceeds from real estate investments sold		2,020,000
Funding of loans receivable		(7,603,413)
Principal payments on loans receivable		5,564,546
Net cash flow used by investing activities	**$**	**(9,559,615)**
Cash Flows From Financing Activities:		
Proceeds from notes payable	$	1,447,553
Proceeds from members subscription payable		2,635,000
Contributions from members		7,964,083
Principal payments on mortgage loans		(1,014,196)
Payment of debt issuance costs		(306,411)
Distributions to members		(1,474,785)
Net cash flow provided by financing activities	**$**	**9,251,244**
Net Change in Cash and Cash Equivalents	$	1,277,729
Cash and Cash Equivalents, At Inception		--
Cash and Cash Equivalents, End of Year	**$**	**1,277,729**
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	**$**	**539,679**
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Real estate investments acquired through mortgage loans	**$**	**23,765,000**
Distributions recorded as a payable	**$**	**221,563**

SCHEDULE OF INVESTMENTS

December 31, 2016

Investment	Ownership	City, State	Square Feet Unless Otherwise Indicated (Unaudited)	December 31, 2016 Cost	Fair Value
Retail					
1124 Caldwell Blvd.	CJV - 70.00%	Nampa, Idaho	2,646	$ 585,764	$ 641,197
Mission Village	CJV - 95.50%	Wenatachee, Washington	32,271	4,299,201	4,299,201
Eagle Marketplace	WO	Eagle, Idaho	58,624	5,091,047	5,972,929
Retail Total		30.58% as of 12/31/16		**$ 9,976,012**	**$ 10,913,327**
Industrial					
Westpark	CJV - 80.00%	Boise, Idaho	117,510	$ 6,414,002	$ 6,675,734
595 Washington	WO	Twin Falls, Idaho	11,195	719,276	719,276
Industrial Total		20.72% as of 12/31/16		**$ 7,133,278**	**$ 7,395,010**
Office					
Treasure Valley Crossing	CJV - 95.63%	Nampa, Idaho	21,000	$ 3,771,119	$ 4,175,129
1444 Entertainment	WO	Boise, Idaho	78,175	11,019,584	11,019,584
110 Main	EJV	Boise, Idaho	6,230	151,158	151,158
Total Office		42.99% as of 12/31/16		**$ 21,355,863**	**$ 22,021,605**
Total Real Estated Owned and Joint Ventures				**$ 32,051,151**	**$33,654,208**
Loans Receivable					
Loans	Loan		N/A	$ 2,038,897	$ 2,038,897
Total Loans Receivable		5.71% as of 12/31/16		**$ 2,038,897**	**$ 2,038,897**
Total Real Estate Investments				**$34,090,048**	**$ 35,693,105**

WO - Wholly Owned Investment
CJV - Consolidated Joint Venture
EJV - Joint Venture Investment accounted for under the equity method

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - NATURE OF BUSINESS

Alturas Real Estate Fund, (the "Fund" or the "Company"), was formed pursuant to an Operating Agreement ("Agreement") on April 6, 2015. Inception of operations began on May 29, 2015, when the first investor contribution was received. The Company was formed for the purpose of acquiring, developing, managing and selling investment properties.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements represent the consolidation of the Company and all its Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include accounts and transactions for the following entities: Alturas 1124 Caldwell Blvd, LLC; Alturas Eagle Marketplace, LLC; Alturas Legends, LLC; Alturas Westpark, LLC; Alturas Treasure Valley Crossing, LLC; Alturas Mission Village, LLC; Alturas 1444 Entertainment, LLC; and Alturas 595 Washington, LLC.

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.

The Company does not have the power to direct the activities that most significantly impact 110 Main, LLC's economic performance. This VIE is reported under the equity method in the accompanying consolidated financial statements, see Note 5.

Noncontrolling Interests

Accounting Standards Codification ("ASC") 810-10 requires that noncontrolling interests in the Company'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. Properties owned are initially recorded at the purchase price plus closing costs. Development costs and major renovations are capitalized as a component of cost, and routine maintenance and repairs are charged to expense as incurred.

Investments in Joint Ventures

Investments in joint ventures are carried at fair value and are presented in the financial statements using the equity method of accounting since control of the investment is shared with the respective venture member. Under the equity method, the investment is initially recorded at the original investment amount, plus additional amounts invested, and are subsequently adjusted for the Company's share of undistributed earnings or losses (including unrealized appreciation and depreciation) from the underlying entity.

Investments in Loans Receivable

Investments in loans receivable are carried at fair value. Loan acquisition and origination costs are capitalized as a component of cost.

Investment Valuation

Real estate values are based upon estimated sales proceeds or Company's opinion of value. Such values have been identified for investment and portfolio management purposes only; the Company reserves its right to pursue full remedies for the recovery of its investments and other rights. The fair value of real estate investments does not reflect transaction sale costs, which may be incurred upon disposition of the real estate investments.

As described above, the estimated fair value of real estate related assets is determined through an appraisal process. These estimated fair values may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Although the estimated fair values represent subjective estimates, management believes these estimated fair values are reasonable approximations of market prices and the aggregate estimated value of investments in real estate is fairly presented at December 31, 2016.

Concentrations of Credit Risk

The Company invests its cash primarily in deposits with commercial banks. At times, cash balances at a limited number of banks and financial institutions may exceed federally insured amounts. The Company believes it mitigates credit risk by depositing cash in multiple, major financial institutions.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less.

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 statement of net assets. Amortization of debt issuance costs is included in interest expense in the accompanying consolidated statement of operations.

Revenue Recognition

The Company leases units 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. Retail leases can also provide for contingent rental payments based on certain variable factors, however the contingent payments are not materially altered by such factors.

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 Company 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 Company 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 Company has been included in these consolidated financial statements.

The Company 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. As of December 31, 2016, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

NOTE 3 - FAIR VALUE MEASUREMENTS

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes 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 input 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 Company. Unobservable inputs are inputs that reflect the Company'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 Account 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 table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2016:

	2016			
	(Level 1)	**(Level 2)**	**(Level 3)**	**Total**
Real estate and improvements	$ --	$ --	$33,503,050	$33,503,050
Real estate joint ventures			151,158	151,158
Loans receivable			2,038,897	2,038,897
	$ --	**$ --**	**$ 35,693,105**	**$ 35,693,105**

The table below set forth a summary of changes in the fair value of the Company's Level 3 assets for the period April 6, 2015 (inception) through December 31, 2016:

	Real Estate Properties	**Unconsolidated Real Estate Joint Ventures**	**Loans Receivable**	**Total Level 3 Investments**
Beginning balance, April 6, 2015	$ --	$ --	$ --	$ --
Property acquisitions	30,990,578	151,158	--	31,141,736
Real estate improvements	2,163,982	--	--	2,163,982
Proceeds from sale	(2,020,000)	--	--	(2,020,000)
Principal payments received	--	--	(5,564,516)	(5,564,516)
Funding of loans	--	--	7,603,413	7,603,413
Total realized gain on sale of real estate	765,433	--	--	765,433
Total realized gain on investments in real estate	1,603,057	--	--	1,603,057
Ending balance, December 31, 2016	**$33,503,050**	**$ 151,158**	**$ 2,038,897**	**$ 35,693,105**

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

Real Estate Properties - The values of real estate properties have been prepared giving consideration to the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. Yield rates and growth assumptions utilized in this approach are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. The income approach was used to value all of the Company's real estate investments for the period ended December 31, 2016. The terminal cap rate and the discount rate are significant inputs to these valuations. These rates are based on the location, type and nature of each property, and current and anticipated market conditions.

Since fair value measurements take into consideration the estimated effect of physical depreciation, historical cost depreciation and amortization on real estate related assets has been excluded from net investment income.

The values of real estate properties undergoing development have been prepared giving consideration to costs incurred to date and to key development risk factors, including entitlement risk, construction risk, leasing/sales risk, operation expense risk, credit risk, capital market risk, pricing risk, event risk and valuation risk. The fair value of properties undergoing development includes the timely recognition of estimated entrepreneurial profit after such consideration.

Unconsolidated Real Estate Joint Venture - are stated at the fair value of the Company's ownership interests of the underlying entities. The Company's ownership interests are valued based on the fair value of the underlying real estate, any related mortgage loans payable, and other factors, such as ownership percentage, ownership rights, buy/sell agreements, distribution provisions and capital call obligations. The underlying assets and liabilities are valued using the same methods as the Company uses for those assets and liabilities it holds directly. Upon the disposition of all real estate investments by an investee entity, the Company will continue to state its equity in the remaining net assets of the investee entity during the wind down period, if any that occurs prior to the dissolution of the investee entity. The Company's real estate joint venture is classified within level 3 of the valuation hierarchy.

Loans Receivable – fair value is determined on the basis of estimated market interest rates for loans of comparable quality and maturity. As the Company's loans are short term in nature (less than 12 months) fair value approximated cost.

The following table represents the Company's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs used at December 31, 2016:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Real Estate and Improvements	$17,464,989	Single Period Capitalization Method	Capitalization Rate	7.00% to 8.25%	7.9%

The significant unobservable inputs used in the fair value measurement of the Company's investments in real estate properties are the selection of the capitalization rate.

Significant increases (decreases) in any of the above inputs in isolation would result in a significantly lower (higher) fair value, respectively.

At December 31, 2016, $16,038,061 of investments in real estate, $151,158 of unconsolidated real estate joint venture and $2,038,897 of loan receivables were valued using acquisition prices. Accordingly, there were not unobservable inputs.

NOTE 4 - INVESTMENTS IN REAL ESTATE AND IMPROVEMENTS

The following details significant investment activity for the period from May 29, 2015 (inception) through December 31, 2016:

On September 11, 2015, the Fund formed Alturas Eagle Marketplace, LLC to purchase a 58,624 square foot retail building in Eagle, Idaho. Alturas Eagle Marketplace, LLC is wholly owned by the Fund. The purchase price was approximately $4,150,000, including transaction costs, which was funded with $3,000,000 of debt and $1,150,000 of equity contributions from the Fund.

Additional improvements were made to the property totaling approximately $950,000. Due to new leases, an additional $1,150,000 was borrowed to cover these costs.

On October 23, 2015, the Fund formed Alturas 1124 Caldwell Blvd, LLC to purchase a 2,646 square foot retail building in Nampa, Idaho. The Fund owns 70% of Alturas 1124 Caldwell Blvd, LLC. The purchase price was $400,000. The building has been significantly renovated for a restaurant tenant. The cost of that renovation through December 31, 2016 was approximately $193,560 which has been funded with $450,000 of debt and $112,383 of equity contributions from the Partnership: $78,668 from the Fund and $33,714 from unaffiliated third-parties.

On December 31, 2015, the Fund formed Alturas Legends, LLC to acquire an 18-unit multi-family property in Raymore, Missouri. Alturas Legends, LLC is wholly owned by the Fund. The purchase price was approximately $1,252,500, including transaction costs, which was funded with $918,000 of debt and $334,500 of equity contributions from the Fund. The property was sold on July 6, 2016 for $2,020,000.

On February 1, 2016, the Fund formed Alturas Westpark, LLC to purchase a 117,510 square feet of industrial space in Boise, Idaho. The Fund owns 80% of Alturas Westpark, LLC. The purchase price was approximately $6,479,020 including transaction costs, which was funded with $5,397,000 of debt and $1,082,020 of equity contributions from the Partnership: $865,616 from the Fund and $216,404 from unaffiliated third-parties.

On September 22, 2016, the Fund formed Alturas Mission Village, LLC to purchase a 32,271 square foot retail building in Wenatchee, Washington. The Fund owns 95.50% of Alturas Mission Village, LLC. The purchase price was approximately$4,392,800 including transaction costs, which was funded with $3,200,000 of debt and $1,200,000 of equity contributions from the Partnership: $1,146,000 from the Fund and $54,000 from unaffiliated third-parties.

On September 26, 2016, the Fund formed Alturas Treasure Valley Crossing, LLC to purchase a 21,000 square foot retail building in Nampa, Idaho. The Fund owns 95.63% of Alturas Treasure Valley Crossing. The purchase price was approximately$3,815,000 including transaction costs, which was funded with $2,700,000 of debt and $1,115,000 of equity contributions from the Partnership: $1,065,000 from the Fund and $50,000 from unaffiliated third-parties.

On December 16, 2016, the Fund formed Alturas 1444 Entertainment, LLC to acquire a 78,175 square foot office building in Boise, Idaho. Alturas 1444 Entertainment, LLC is wholly owned by the Fund. The purchase price was approximately $11,000,000 including transaction costs, which was funded with $8,000,000 of debt and $3,000,000 of equity contributions.

On December 23, 2016, the Fund formed Alturas 595 Washington, LLC to acquire a 11,195 square foot industrial building in Twin Falls, Idaho. Alturas 595 Washington, LLC is wholly owned by the Fund. The purchase price was approximately$724,173 including transaction costs, which was funded with $550,000 of debt and $174,173 of equity contributions.

NOTE 5 - INVESTMENTS IN UNCONSOLIDATED REAL ESTATE JOINT VENTURE

On October 8, 2015, the Fund acquired a 40% ownership interest in 110 Main LLC, which owns a 6,230 square foot office building in Boise, Idaho. The purchase price was $275,000. The building was a historic home that is being renovated for office use. The cost of that renovation through December 31, 2016 was approximately $865,000 which has been funded with $565,000 of debt and $300,000 of equity contributions from the Partnership: $120,000 from the Fund and $180,000 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, 2016:

		2016
Cash and cash equivalents	$	78,006
Land and buildings		850,407
Mortgage loans		(552,104)
Net Assets	$	376,309
AREF’s share of real estate joint venture net assets	**$**	**151,158**

There were no revenues or expenses during the period from April 6, 2015 (inception) through December 31, 2016.

Distributions from the entity will be received from operations until a liquidity event. The fair value of the entity has been estimated using the net asset value of the Fund's ownership interest in partners' capital.

At December 31, 2016, the Company 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, 2016 with respect to its relationship with 110 Main, LLC, is approximately $552,000, the amount of the debt guarantee provided.

NOTE 6 - MEMBERS SUBSCRIPTION PAYABLE

Member subscriptions payable consists of funds received by unaffiliated investors which have been used to purchase real estate investments. The payables accrue interest at 8% per annum and convert to equity contributions on the first day following the quarter end in which the funds were used. As of December 31, 2016, the Fund recorded a liability of $2,635,000. All subscriptions payable and accrued interest outstanding at December 31, 2016 were converted to equity contributions on January 1, 2017.

NOTE 7 - MORTGAGE LOANS AND NOTES PAYABLE

Mortgage loans and notes payable consists of the following as of December 31, 2016 (at carrying value):

		2016
4.50% Mortgage Note Payable (Alturas 1124 Caldwell), due in variable monthly installments including interest, with all remaining principal due December 2026, or lender can demand full repayment at any time, guaranteed by related parties and secured by real estate	$	449,502
4.14% Mortgage Note Payable (Alturas Eagle Marketplace), due in monthly installments of $20,169 including interest, to October 2025, guaranteed by related parties and secured by real estate		4,154,000
4.26% Mortgage Note Payable (Alturas Westpark), due in monthly installments of $26,852 including interest, to February 2026, guaranteed by related parties and secured by real estate		5,321,581
3.87% Mortgage Note Payable (Alturas Treasure Valley), due in monthly installments of $16,177 including interest, to October 2026, guaranteed by related parties and secured by real estate		2,685,036
4.33% Mortgage Note Payable (Alturas Mission Village), due in monthly installments of $11,932 including interest, to October 2019, guaranteed by related party and the Company and secured by real estate		3,200,000
3.91% Mortgage Note Payable (Alturas 1444 Entertainment), due in monthly installments of $40,523 including interest, to December 2018, guaranteed by related party and the Company and secured by real estate		7,700,000
4.77% Mortgage Note Payable (Alturas 595 Washington), due in monthly installments of $3,503 including interest, to January 2027, guaranteed by related party and the Company and secured by real estate		550,000
8.00% Member Note Payable, with all principal and accrued interest due on July 31, 2019, unsecured		138,238
	$	**24,198,357**
Less debt issuance costs		(286,957)
	$	**23,911,400**

Future principal payments of mortgage loans and notes payable are as follows:

Future principal payments are due as follows:

Year Ending December 31,	
2017	$ 883,658
2018	10,989,739
2019	429,140
2020	303,048
2021	315,847
Thereafter	11,276,925
Total	**$ 24,198,357**

The Fund has various financial covenants relating to mortgage loans.

NOTE 8 - MINIMUM FUTURE LEASE REVENUES

As December 31, 2016, minimum future rental payments to be received under non-cancelable operating leases having a term of more than one year are as follows:

Year Ending December 31,	
2017	$ 3,624,691
2018	3,599,559
2019	3,620,246
2020	3,557,401
2021	2,576,407
Thereafter	6,649,406
Total	**$ 23,627,710**

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 Company 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 period of time of the member's capital contribution being outstanding.

Second, 70% to the members, pro rata in proportion to their ownership interest and 30% to the managing member. The managing member earned $365,574 in allocations of profits from May 29, 2015 (inception) through December 31, 2016.

NOTE 10 - RELATED PARTY TRANSACTIONS

An affiliated entity of the Fund borrows funds under short term promissory notes. As of December 31, 2016 the affiliated entity owes the Fund $2,038,897 in outstanding borrowings and $152,003 in accrued interest which is included in the accompanying consolidated statement of net assets under the caption "loans receivable and accrued investment income". From May 29, 2015 (inception) through December 31, 2016, the Fund has loaned $7,603,413 in short term promissory notes and has collected $5,557,946.

An affiliated entity receives fund management, property management and development fees from the Fund. From May 29, 2015 (inception) through December 31, 2016, the Fund paid fund management, property management and development fees totaling $115,169, $82,461 and $44,393, respectively. As of December 31, 2016, the Fund owed $46,138 in management fees which is recorded in the accompanying consolidated statement of net assets under the caption "accrued expenses – related party".

From time to time, an affiliated entity paid fund expenses on behalf of the Fund to be reimbursed at a later date. From May 29, 2015 (inception) through December 31, 2016, the Fund reimbursed $27,504 for fund expenses paid by an affiliated entity. As of December 31, 2016 the Fund owed $4,224 in reimbursement to the affiliated entity.

As disclosed in Note 7, certain owners of the Managing Member of the Fund have personally guaranteed mortgage loans.

NOTE 11 - FINANCIAL HIGHLIGHTS

		For the period from April 5, 2016 (inception) to December 31, 2016
PER UNIT OPERATING PERFORMANCE (*):		
Net Asset Value, May 29, 2015 (inception)	$	--
INCOME FROM INVESTMENT OPERATIONS:		
Net investment income, before management fees		105
Net realized and unrealized gain on investments		258
Total from investment operations, before management fees		363
Management fees		16
Total from investment operations		**347**
Contributions		1,077
Distributions		(182)
Net Asset Value, December 31, 2016	**$**	**1241**
Total Return, before management fees, net of incentive allocation to manager (a):		35.99%
Total Return, after management fees, net of incentive allocation to manager (a):		34.38%
RATIOS / SUPPLEMENTAL DATA:		
Ratios to average net assets (b)		
Total Expenses		31.96%
Incentive allocation		8.19%
Total expenses and incentive allocation		40.15%
Net investment income (does not include net realized and unrealized gaines)		22.20%

(*) All amounts are shown net of amounts allocated to noncontrolling interests

(a) Total Return, before/after management fees is calculated by geometrically linking quarterly returns which are calculated using the formula below:
Investment Income before/after Management Fees + Net Realized and Unrealized Gains/Losses – Actual and Estimated Incentive Allocation to Manager
Beg. Net Asset Value + Time Weighted Contributions – Time Weighted Distributions

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

NOTE 12 - SUBSEQUENT EVENTS

Acquisitions:

In April of 2017, the Fund purchased land in Caldwell, Idaho for $550,000. Shortly after purchase, construction began on a Dutch Bros coffee shop with estimated construction costs of $1,315,000. Dutch Bros is a popular drive-thru coffee chain headquartered in Grants Pass, Oregon known for its specialty coffee, teas & smoothies. The Fund has partnered with a local developer to construct the store which will be a new, modern prototype for Dutch Bros. The store is located immediately off of the Franklin Blvd exit of I-84 with visibility for commuters heading east to Boise and west to Oregon. The Dutch Bros occupied the space and began operations in September of 2017.

12005 Meridian is a development project in the Seattle metro area. The site was formerly the location of a thrift store but situated on a hard corner along the primary retail corridor near South Hill Mall in Puyallup, and was underutilized. The Fund purchased the property in April 2017 for $1,500,000 and negotiated a buyout of the prior tenant. The former building has been demolished and construction is now underway for a 7,274 square foot multi-tenant retail building. The primary tenant is CityMD, an urgent care operator that has partnered with a local health system. The Fund is actively working to lease the remaining square footage. Construction of the project is expected to be completed in early 2018 and total costs are expected to be $4,750,000.

In June 2017, the Fund acquired a 57,933 square foot two-story office property in Phoenix, Arizona, a target market, which in turn has increased the geographic diversification of the Fund. The original purchase price was $7,965,000 with estimated initial building improvements of $150,000. The property, Siete Square I, lies within the Midtown submarket north of Phoenix's CBD. The asset was acquired in partnership with a local broker, and the Fund owns approximately 81% of the asset with the broker contributing the balance of the capital. The property provides recurring cash flow to the Fund and the fund manager believes the asset has additional upside potential as the submarket continues to grow and office rents in the area increase corresponding to the increased demand. The asset was acquired at a price below replacement cost which the Fund manager believes will enable the property to remain competitive through future market cycles.

In July 2017, the Fund acquired the Adelmann Building a multi-tenant 14,704+ square foot building in downtown Boise directly across from Boise City Hall and a block away from the Idaho State Capitol. Downtown Boise is a fast-growing dynamic submarket. The purchase price was $2,150,000 and the asset is fully occupied. The current tenants include: Boise Fry Company, Dharma Sushi, Press & Pony, Space Bar, and Capital City Event Center. It was last remodeled in 2015 and continued investments are expected under the Fund's ownership. The Fund manager believes that the asset has additional upside potential as downtown Boise continues to grow and rents increase corresponding to the increased demand.

In August 2017, the fund acquired 1550 Tech Lane, a 105,000 square foot multi-use industrial building in Meridian, Idaho. The real property was purchased for $6,000,000 and an estimated $1,000,000 will be used to improve the property. Also known as Treasure Valley Tech Center, the building is centrally located in the Treasure Valley with convenient access to I-84. Additionally, the building is highly visible from the freeway. The current office tenants include Verified First and RuleTek, both of whom are interested in expanding. The industrial space is currently leased by Computrol (formerly Western Electronics). The lease runs until May of 2019 but they have vacated the space. Due to the uncertainty around Computrol, the asset was acquired at a below-market price. With industrial vacancy rates currently at around 3% in the market, the Fund manager anticipates that the space will be backfilled prior to the maturity of the Computrol lease.

12000 Deep Canyon is an 8,069 SF home acquired by the Fund for $605,000 through a foreclosure auction. The home is in good condition, was built in 2007, has six bedrooms, five bathrooms and two kitchens. The home is located in a desirable suburb of Boise, Idaho. At the end of the 3rd quarter of 2017, the Fund sold the entity that owned the asset to a residential fix & flip investor for $605,000 and carried a 30% interest bearing loan against the property. The note is expected to be paid back in the 4th quarter.

Dispositions:

1124 Caldwell is a 2,600 square foot single-tenant retail property. The property was sold at the end of June 2017 for $1,050,000. The property was acquired in October 2015 at a 9.5% cap rate. Subsequently a new tenant paying a market rent was identified and improvements were made to the property. The recent sales price equates to a 6.4% cap rate, resulting in excess of $200,000 in net income to the Fund (over a 3.0 equity multiple) which was realized in less than two years.

The Fund has evaluated subsequent events through October 31, 2017, the date which the financial statements were available to be issued.