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DEPT. OF STATE

INDEPENDENT AUDITORS' REPORT ON BALANCE SHEET FILED WITH THE DEPARTMENT OF STATE

To the Authorized Officers and Stockholder of
BP Estates Development, Inc.
(a wholly-owned subsidiary of BBP Partners, LLC):

Report on the Balance Sheets

We have audited the accompanying balance sheets of BP Estates Development, Inc. (a wholly-owned subsidiary of BBP Partners, LLC) (the "Company") as of December 31, 2018 and 2017, and the related notes.

Management's Responsibility for the Balance Sheets

Management is responsible for the preparation and fair presentation of this balance sheets 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 the balance sheets that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the balance sheets 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 financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the balance sheets. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the balance sheets in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, 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 financial statement.

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 balance sheets referred to above, presents fairly, in all material aspects, the financial position of the Company as of December 31, 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Related Parties Transactions

As disclosed in Note 6 to the financial statements, the Company is a member of a group of affiliated companies and has extensive transactions and relationships with members of the group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of the Authorized Officers and Stockholder, Company's management and the agencies of the Department of State responsible for the administration of the annual reports and is not intended to be and should not be used by anyone other than these specified parties.

We certify that none of our shareholders and partners is a shareholder, partner or employee of the above Company.

BDO Puerto Rico, PSC

San Juan, Puerto Rico

April 26, 2019

E370792
COLEGIO DE CONTADORES PUBLICOS AUTORIZADOS DE PUERTO RICO

BDO PUERTO RICO, P.S.C.
Certified Public Accountants
Puerto Rico
License No. 53
Expires on December 1, 2021

By:

License No. 4722

BP ESTATES DEVELOPMENT, INC.
(a wholly-owned subsidiary of BBP Partners, LLC)
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

		2018		2017
ASSETS				
Cash, including $0 and $250,100 of buyers' escrow deposits as of December 31, 2018 and 2017, respectively	$	955	$	269,875
Accounts receivable		50,317		-
Prepaid expenses		4,144		3,034
Due from related parties		26,213,275		23,733,618
Land and development costs		8,896,241		2,684,156
Property, plant and equipment, net		-		160,556
Other asset		275,233		275,233
	$	35,440,165	$	27,126,472
LIABILITIES AND STOCKHOLDER'S EQUITY				
LIABILITIES:				
Accounts payable	$	532,613	$	136,630
Accrued expenses		104,256		56,799
Buyers' option deposits		-		250,000
Due to related parties		-		7,251
Total liabilities		636,869		450,680
STOCKHOLDER'S EQUITY:				
Common stock, 10,000 shares authorized of $0.01 par value; 10,000 shares paid but unissued		100		100
Additional paid-in capital		9,417,084		3,711,829
Retained earnings		25,386,112		22,963,863
Total stockholder's equity		34,803,296		26,675,792
	$	35,440,165	$	27,126,472

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

1. NATURE OF BUSINESS

BP Estates Development, Inc. (the "Company") was organized under the laws of the Commonwealth of Puerto Rico on October 21, 2004. The Company is engaged principally in the sale of land lots and the construction and development of real estate projects such as residential family houses and the related recreational facilities. The Company is a wholly-owned subsidiary of BBP Partners, LLC (the "Parent Company").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America, and, as such, include amounts based on judgments, estimates, and assumptions made by management that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Following is a description of the more significant accounting policies followed by the Company:

Accounts Receivable Trade and Allowance for Doubtful Accounts - Accounts receivable are recorded at their estimated realizable value.

The Company provides for estimated losses on accounts receivable trade upon an evaluation of the risks characteristics of those accounts, loss experience, economic conditions and other pertinent factors. Accounts receivable are charged against the allowance when it is determined by the Company's management that payment will not be received. Any subsequent receipts are credited to the allowance. Management has determined no allowance is needed as of December 31, 2018.

Prepaid Expenses - Expenditures made to secure the use of assets or the receipts of services at a future date are charged to the prepaid account and are amortized based on the term and usage of the amounts.

Due From/Due To Related Parties - Due from and due to related parties consist mostly of amounts advanced to and amounts received from related parties for working capital purposes, as well as operating transactions among the related parties. These balances bear no interest and have no formal repayment schedule.

Land and Development Costs - Costs that clearly relate to land development projects are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, acquisition costs are allocated based on their relative fair value before development, and development costs are allocated based on their relative sales value. Interest costs are capitalized while development is in progress.

Property, Plant and Equipment - Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of each asset. Maintenance and repair costs that do not improve or extend the life of the respective assets are expensed as incurred. Costs of renewals and betterments which extend the useful life of the respective assets are capitalized. When assets are sold or disposed of, the cost of the assets and the related accumulated depreciation/amortization are removed from the accounts and any gain or loss is included in income.

Impairment of Long-Lived Assets - In accordance with Financial Accounting Standard Board ("FASB") authoritative guidance on the accounting for the impaired or disposal of long-lived assets, the Company evaluates for impairment long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an estimate of the future cash flows expected to result from the use of the asset and its eventual disposition must be made. If the sum of the future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized for the difference, if any, between the discounted future cash flows and the carrying value of the asset. Management determined that there were no impairment losses for the years ended December 31, 2018 and 2017.

Other Asset - Other asset is stated at cost and relate to a home design model blueprint being developed for potential land lot buyers.

Revenue Recognition - The Company recognizes revenues from all sales of land lots and homebuilding activities at the closing of the sale using the deposit method. Under this method, the principal portion of customers' payments received are recorded as customers escrow deposits until a contract qualifies for recording as a sale. Selling and general and administrative costs are charged to expense as incurred.

Income Taxes - For income tax purposes, the Company elected to be treated as a special partnership, under the benefits of Subchapter D of Chapter 11 A of the Puerto Rico Internal Revenue Code of 2011, as amended. As a special partnership, the Company is not subject to income tax at the corporate level. Instead, the stockholder reports its distributive share of the Company's profit and losses on its income tax return. Accordingly, no income tax provision or benefit has been included in the accompanying financial statements.

Fair Value of Financial Instruments - The carrying value of the Company's financial instruments (cash, accounts receivable, accounts payable, and accrued liabilities) are considered reasonable estimates of fair value due to their liquidity or short-term nature.

Reclassifications - Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statements presentation.

3. LAND AND DEVELOPMENT COSTS

As of December 31, 2018 and 2017, land and development costs consist of:

	2018	2017
Capitalized development costs	$ 3,110,355	$ 2,398,271
Land costs	5,785,886	285,885
	$ 8,896,241	$ 2,684,156

4. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2018 and 2017, property, plant and equipment consist of:

	Useful Lives (in years)	2018	2017
Machinery and equipment	3	$ 481,669	$ 481,669
Less: accumulated depreciation		(481,669)	(321,113)
Net depreciable assets		$ -	$ 160,556

5. CONSTRUCTION LINE OF CREDIT

On December 21, 2018, the Company entered into a Credit Agreement (the "Credit Agreement") with a financial institution (the "Lender") to partially fund the development, construction, and sale of the Company's real estate project. The credit facility is a non-revolving construction line of credit of up to $15,313,000, which bears interest based on 4.5% over 90-day LIBOR (7.2361% at December 31, 2018), with a floor rate of 7%. As of December 31, 2018, there was no outstanding balance of the construction line of credit.

Pursuant to the provisions of the Credit Agreement, with the sale of each land lot, the Company has to deliver to the Lender, an amount, in immediate available funds equal to not less than 100% of the land lot sale.

The advances made by the Lender shall be paid no later than the first day of the month following: (1) the 14-month anniversary from the initial draw date by an amount of no less than $5,263,192; (2) the 20-month anniversary from the initial draw date an amount of no less than $10,526,384; and (3) a payment of all the then outstanding amounts due under the facility no later than maturity date. Maturity date will be the first day of the month, following the twenty-fourth month anniversary from the initial draw date. No draws were made during the year ended December 31, 2018.

The credit facility is secured as follows:

- Mortgage over real property related with the real estate project and any improvements from time to time constructed in the project.
- Pledge over the Company's rights over the projects permits, project contracts, project plans and specifications.
- Collateral assignment of all the proceeds related with the sales of land lots.
- Pledge over an escrow account into which the Company shall deposit, promptly upon receipt, all down-payments, earnest money, deposits from purchasers or prospective purchasers of the land lots, including the minimum unit deposits.
- Pledge over an equity contribution cash account to be established in the future as consider necessary, as defined in the loan agreement.
- Pledge over 100% of the outstanding common stock of the Company held by BBP Partners, LLC.

Pursuant to the provisions of the loan agreement, the Company must comply with several covenants and restrictions. As of December 31, 2018, the Company was in compliance with all applicable covenants and restrictions.

6. RELATED PARTY TRANSACTIONS

The Company is a member of a group of affiliated companies and has extensive transactions and relationships with members of the group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

For the years ended December 31, 2018 and 2017, the most significant related parties' transactions consist of the following:

	2018	2017
Commissions on sales charged by a related party	$ 146,279	$ 111,015
Selling expenses paid to a related party	$ 60,000	$ 60,000
Land premises received as capital contribution	$ 5,705,255	$ -
Net advances to related parties	$ 3,045,050	$ 3,012,334

During 2018, Bahia Beach CH Development, LLC transferred to the Company all rights, title, and interest in a parcel of land with a cost amounting to $1,594,242 in exchange for a minority ownership interest in the Company. Subsequently, Bahia Beach CH Development, LLC distributed to BBP Partners, LLC, all of the rights and title of the minority ownership interest in the Company.

During 2018, BBP Partners, LLC transferred to the Company all rights, title, and interest in a parcel of land with a cost amounting to $4,111,013 as a capital contribution.

7. INCOME TAXES

FASB issued authoritative guidance on accounting for uncertainty in income taxes that prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Under the authoritative accounting guidance, income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. No adjustment was required upon adoption of this accounting guidance.

The Company files special partnership informative income tax returns in the Puerto Rico jurisdiction. The Company remains subject to income tax examinations for its Puerto Rico income taxes for calendar years 2014 through 2018.

On December 10, 2018, the Governor of the Commonwealth of Puerto Rico signed into law Act No. 257-2018 (the "Act"), which amends several provisions of the Puerto Rico Internal Revenue Code of 2011, as amended.

As of April 26, 2019, management is evaluating the Act's impact in the Company's financial statements. However, there are uncertainties as to how certain Act provisions will be interpreted and implemented, which could impact Management's overall assessment and the Company's tax provision and analysis for future years.

8. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially expose the Company to certain concentration of credit risk include cash in bank accounts. The Company maintains deposit accounts at high quality financial institutions. While the Company attempts to limit any financial exposure, its deposit balances may, at times, exceed federally insured limits.

Effective January 1, 2013, all non-interest bearing cash deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000. As of December 31, 2017, the Company exceeded the insured limit by $46,585. As of December 31, 2018, the Company did not exceed the insured limit. The Company foresees no near-term risk on these deposits.

9. SUBSEQUENT EVENTS

For purposes of these financial statements, subsequent events have been evaluated through April 26, 2019, which is the date that financial statements were available to be issued. The Company has determined that there are no material events occurring in this period that required disclosure in or adjustment to the accompanying financial statements.