Regency Affiliates, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2018

Regency Affiliates, Inc. and Subsidiaries
Index to the Consolidated Financial Statements

ACCOUNTANTS + ADVISORS

www.rrbb.com

ROSENBERG RICH BAKER BERMAN & COMPANY

265 Davidson Avenue, Suite 210 • Somerset, NJ 08873-4120 • PHONE 908-231-1000 • FAX 908-231-6894
111 Dunnell Road, Suite 100 • Maplewood, NJ 07040 • PHONE 973-763-6363 • FAX 973-763-4430

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Regency Affiliates, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Regency Affiliates, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, 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.

Restatement of Previously Issued Financial Statements

As discussed in Note 2, the Company has restated its 2017 financial statements to correct an error.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Regency Affiliates, Inc. and Subsidiaries as of December 31, 2018 and 2017 (as restated), and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
July 23, 2019

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2018	December 31, 2017 *(Restated)*
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,932,474	$ 5,255,732
Restricted cash	506,251	339,002
Prepaid expenses	421,505	421,693
Prepaid insurance	90,600	90,600
Prepaid income taxes	345,828	231,409
Rent receivable	45,890	20,700
Total current assets	5,342,548	6,359,136
Real Estate		
Self-storage properties	35,100,361	35,087,576
Less accumulated depreciation	(2,103,592)	(1,325,507)
Property and equipment, net	21,503	25,127
Investment in partnerships/LLC	56,812,861	55,404,349
Prepaid insurance, net of current portion	286,600	377,200
Other assets	204,360	204,360
Total assets	$ 95,664,641	$ 96,132,241
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 366,165	$ 321,283
Deferred revenue	156,547	145,683
Deferred rent	81,081	81,081
Income tax payable	-	233,722
Dividends payable	404,274	299,457
Tenant security deposits	7,433	8,244
Total current liabilities	1,015,500	1,089,470
Non-current Liabilities:		
Mortgage note payable, net	25,157,415	25,144,791
Total liabilities	26,172,915	26,234,261
Commitments and contingencies		
Shareholders' Equity		
Serial preferred stock, par value $0.10; 2,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $0.01; 8,000,000 shares authorized; 4,815,058 and 4,791,308 shares issued and outstanding, as of December 31, 2018 and December 31, 2017, respectively	48,151	47,913
Additional paid-in capital	14,039,310	14,016,916
Retained earnings	55,367,342	55,794,366
Total shareholders' equity	69,454,803	69,859,195
Noncontrolling interest	36,923	38,785
Total equity	69,491,726	69,897,980
Total liabilities and shareholders' equity	$ 95,664,641	$ 96,132,241

See independent auditor's report and notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Income

	For the Year Ended December 31,	
	2018	2017
		(Restated)
Revenue		
Rental	$ 3,345,279	$ 3,116,251
Insurance, late fees and other income	315,588	292,382
Total revenue	3,660,867	3,408,633
Operating expenses:		
Self-storage cost of operations	1,480,984	1,418,599
Self-storage depreciation expense	778,085	776,942
General and administrative expenses	2,198,247	1,912,798
Total operating expenses	4,457,316	4,108,339
Loss from operations	(796,449)	(699,706)
Other income (expense):		
Income from equity investment in partnerships/LLC	6,975,099	7,331,961
License agreement income	109,600	106,989
Interest income	49,203	6,196
Interest expense	(1,267,234)	(1,275,958)
Amortization of debt discount	(12,624)	(12,624)
Total other income (expense)	5,854,044	6,156,564
Net income before income taxes	5,057,595	5,456,858
Income tax expense	4,244,989	813,203
Net income	812,606	4,643,655
Net income (loss) attributable to noncontrolling interest	24,388	(15,094)
Net income allocated to shareholders	$ 788,218	$ 4,658,749

See independent auditor's report and notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Changes in Equity
For the Year Ended December 31, 2018

	Preferred Stock		Common Stock		Additional Paid-		Shareholders'	Noncontrolling	
	Shares	Amount	Shares	Amount	In Capital	Retained Earnings	Equity	Interest	Total Equity
Balance at January 1, 2017 *(restated)*	-	$ -	4,778,144	$ 47,781	$ 13,978,408	$ 52,317,465	$ 66,343,654	$ 86,531	$ 66,430,185
Cashless exercise of common stock options	-	-	13,164	132	(132)	-	-	-	-
Stock options compensation expense	-	-	-	-	38,640	-	38,640	-	38,640
Dividend paid to noncontrolling interest	-	-	-	-	-	-	-	(32,650)	(32,650)
Cash dividends paid	-	-	-	-	-	-	-	-	-
Cash dividends declared	-	-	-	-	-	(1,181,848)	(1,181,848)	-	(1,181,848)
Net income (loss)	-	-	-	-	-	4,658,749	4,658,749	(15,096)	4,643,653
Balance at December 31, 2017 *(restated)*	-	$ -	4,791,308	$ 47,913	$ 14,016,916	$ 55,794,366	$ 69,859,195	$ 38,785	$ 69,897,980
Cashless exercise of stock option	-	-	23,750	238	(238)	-	-	-	-
Stock options compensation expense	-	-	-	-	22,632	-	22,632	-	22,632
Dividend paid to noncontrolling interest	-	-	-	-	-	-	-	(26,250)	(26,250)
Dividends declared	-	-	-	-	-	(1,215,242)	(1,215,242)	-	(1,215,242)
Net Income	-	-	-	-	-	788,218	788,218	24,388	812,606
Balance at December 31, 2018	-	$ -	4,815,058	$ 48,151	$ 14,039,310	$ 55,367,342	$ 69,454,803	$ 36,923	$ 69,491,726

See independent auditor's report and notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	For the Year Ended December 31,	
	2018	2017
		(Restated)
Cash Flows From Operating Activities		
Net Income	$ 812,606	$ 4,643,653
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash expenses		
Depreciation and amortization	783,070	781,280
Income from equity investment in partnerships/LLCs	(9,096,536)	(7,331,961)
Impairment of equity investment in partnerships/LLCs	2,121,437	-
Stock based compensation	22,632	38,640
Amortization of debt discount	12,624	12,624
Changes in operating assets and liabilities		
Prepaid expenses	188	(35,053)
Prepaid insurance	90,600	105,100
Prepaid income taxes	(114,419)	(164,017)
Rent receivable	(25,190)	(16,581)
Inventory	-	5,741
Accounts payable and accrued expenses	44,881	122,222
Deferred revenue	10,864	3,398
Deferred rent	-	1,889
Income tax payable	(233,722)	221,722
Tenant security deposits	(811)	(1,052)
Total adjustments	(6,384,382)	(6,256,048)
Net cash used in operating activities	(5,571,776)	(1,612,395)
Cash Flows From Investing Activities		
Distributions of earnings from partnerships	5,566,587	3,095,405
Purchase of equipment	(14,145)	(15,749)
Change in restricted cash	(167,249)	(49,533)
Net cash provided by investing activities	5,385,193	3,030,123
Cash Flows From Financing Activities		
Dividends paid to common shareholders	(1,206,535)	(1,173,858)
Dividends returned from common shareholders	96,110	-
Dividends paid to noncontrolling shareholder	(26,250)	(32,650)
Net cash used in financing activities	(1,136,675)	(1,206,508)
Net decrease in cash and cash equivalents	(1,323,258)	211,220
Cash and cash equivalents - beginning	5,255,732	5,044,512
Cash and cash equivalents - ending	$ 3,932,474	$ 5,255,732
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	$ 1,267,234	$ 1,276,234
Income taxes	$ 2,445,798	$ 755,498
Non-cash investing and financing activities:		
Common stock dividends declared	$ 308,164	$ 299,457
Cashless exercise of common stock	$ 238	$ 132

See independent auditor's report and notes to the consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") as defined in the Financial Accounting Standards Board Accounting Standards Codification (the "Codification").

Nature of Operations

Regency Affiliates, Inc. ("Regency" or "the Company") invests in assets that generate attractive, predictable and sustainable returns on capital. The Company's objective is to generate long term value for its shareholders. Management seeks sound investment opportunities to meet its business characteristics and valuation criteria.

The Company holds a limited partnership interest in Security Land and Development Company Limited Partnership ("Security Land"), which owns and operates 34.3 acres of land and rental property of approximately 717,000 square feet in Woodlawn, Maryland, which is occupied by the United States Social Security Administration's Office of Disability and International Operations. In November 2000, the Company acquired a 5% limited partnership interest in 1500 Woodlawn Limited Partnership, the general partner of Security Land. See Note 2, "Investment in Security Land and Development Company Limited Partnership."

In addition, Regency Power Corporation ("Regency Power", 100% owned subsidiary of the Company) owns a 50% interest in MESC Capital, LLC, a Delaware limited liability company ("MESC Capital"). MESC Capital owns a 100% interest in Mobile Energy Services Company, LLC, an Alabama limited liability company ("Mobile Energy"), which owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama. See Note 3, "Investment in MESC Capital LLC."

In April 2016, Regency formed a new, wholly owned subsidiary, RSS Investments LLC ("RSS"). RSS acquired a majority ownership (80%) of SSCP Harrisburg Holdings, LLC, a Delaware limited liability company ("Harrisburg Holdings"). Harrisburg Holdings is the sole member of SSCP Harrisburg Intermediate Holdings, LLC, a Delaware limited liability company ("Intermediate Holdings"). Simultaneously with RSS's investment in Harrisburg Holdings, Harrisburg Intermediate Holdings acquired a portfolio of five self-storage facilities in Harrisburg, Pennsylvania. Through our controlling interest of SSCP Harrisburg Holdings, LLC, we are focused on the ownership, operation, and acquisition of self-storage properties located within the Harrisburg, Pennsylvania area.

Principles of Consolidation

These financial statements include the accounts of the Company, and its wholly owned subsidiaries, Regency Power and RSS. All significant intercompany balances and transactions have been eliminated in consolidation.

Note. 1. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest

The Company consolidates its 80% equity interest in Harrisburg Holdings and reports the remaining 20% interest by the third party, SSCP Management LLC, as a noncontrolling interest on the balance sheet. At December 31, 2018 and December 31, 2017, the noncontrolling equity interest was $36,923 and $38,785, respectively. The net income or net loss of Harrisburg Holdings is allocated based on the ownership percentages on the statements of income. For the year ended December 31, 2018 and 2017, Harrisburg Holdings had net income (loss) of $121,940 and $(75,472), respectively, resulting in net income (loss) attributable to the noncontrolling interest for the year ended December 31, 2018 and 2017 of $24,388 and $15,096 respectively.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and short-term highly liquid investments with original maturities of three months or less. The Company places its cash and cash equivalents with high credit quality financial institutions that may exceed federally insured amounts at times. As of December 31, 2018 and December 31, 2017, the Company's cash equivalents were $2,508,221 and $4,488,345, respectively.

Restricted Cash

The self-storage properties hold escrow funds in money market trust accounts for real estate taxes, insurance, and replacement reserves disbursements to be paid when due, pursuant to the terms of the bank financing agreement.

Self-Storage Properties

Self-storage properties are carried at historical cost less accumulated depreciation and any impairment losses. Major replacements and betterments, which improve or extend the life of an asset, are capitalized. Expenditures for ordinary repairs and maintenance are expensed as incurred and are included in self-storage cost of operation. Estimated depreciable lives of self-storage properties are determined by considering the age and other indicators about the condition of the assets at their respective dates of acquisition, resulting in an estimated useful life for assets within each category. All self-storage property assets are depreciated using the straight-line method. Buildings and improvements are depreciated over estimated useful lives of 39 years.

When a self-storage property is acquired in a business combination, the purchase price of the acquired self-storage property is allocated to land, buildings and improvements, furniture and equipment, customer in-place leases, assumed real estate leasehold interests, other assets acquired and liabilities assumed, based on the estimated fair value of each component. When a portfolio of self-storage properties is acquired, the purchase price is allocated to the individual self-storage properties based on the fair value determined using an income approach with appropriate risk-adjusted capitalization rates, which take into account the relative size, age and location of the individual self-storage properties.

Note 1. Summary of Significant Accounting Policies (continued)

Self-Storage Properties (continued)

These items consist of the following at:

	December 31, 2018	December 31, 2017
Land	$ 4,870,000	$ 4,870,000
Building and improvements	30,203,120	30,193,771
Furniture and equipment	27,241	23,805
	35,100,361	35,087,576
Less: Accumulated Depreciation	(2,103,592)	(1,325,507)
	$ 32,996,769	$ 33,762,069

Depreciation expense on these properties was $778,085 and $776,942 for the year ended December 31, 2018 and 2017, respectively.

Property and Equipment

Property and equipment is carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows: machinery and equipment - 7 years. Repairs and maintenance costs are expensed as incurred.

These items consist of the following at:

	December 31, 2018	December 31, 2017
Machinery and equipment	$ 45,183	$ 43,822
Less: Accumulated depreciation	(23,680)	(18,695)
	$ 21,503	$ 25,127

Depreciation expense was $4,985 and $4,337 for the year ended December 31, 2018 and 2017, respectively.

Note 1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Company utilizes FASB ASC 740-10, “Income Taxes”, which requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those temporary differences that have future tax consequences using the current enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. In some situations, FASB ASC 740-10 permits the recognition of expected benefits of utilizing net operating loss and tax credit carryforwards. Valuation allowances are established based upon management’s estimate, if necessary. Income tax expense (benefit) is the current tax payable or refund for the period plus or minus the net change in the deferred tax assets and liabilities.

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%. As of the completion of these condensed financial statements and related disclosures, the Company has made a reasonable estimate of the effects of the Tax Act. This estimate incorporates assumptions made based upon the Company’s current interpretation of the Tax Act, and may change as the Company may receive additional clarification and implementation guidance and as the interpretation of the Tax Act evolves. In accordance with SEC Staff Accounting Bulletin No. 118, the Company will finalize the accounting for the effects of the Tax Act no later than the fourth quarter of 2018. Future adjustments made to the provisional effects will be reported as a component of income tax expense in the reporting period in which any such adjustments are determined.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and also affect the amounts of revenues and expenses reported for each period. Actual results could differ from those which result from using such estimates. Management utilizes various other estimates, including but not limited to, assessing the collectability of rents receivable, determining the estimated lives of long-lived assets, determining the potential impairment of intangibles, the fair value of stock options, the recognition of revenue, and other legal claims and contingencies. The results of any changes in accounting estimates are reflected in the financial statements in the period in which the changes become evident. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary.

Note 1. Summary of Significant Accounting Policies (continued)

Revenue and Expense Recognition

Management has determined that all of its leases are operating leases. Substantially all leases may be terminated on a month-to-month basis and rental income is recognized ratably over the lease term using the straight-line method. Rents received in advance are deferred and recognized on a straight-line basis over the related lease term associated with the prepayment. Promotional discounts and other incentives are recognized as a reduction to rental income over the applicable lease term. Other property related revenue consists of ancillary revenues such as tenant insurance related access fees and commissions and sales of storage supplies with are recognized in the period earned.

Property tax expense is based on actual amounts billed, or estimates of anticipated bills or assessments that have not yet been received from the taxing authorities. Cost of operations, general and administrative expense, interest expense, and advertising expenditures are expensed as incurred.

Advertising Expenses

The Company expenses advertising costs when incurred. Advertising and marketing costs totaled $78,147 and $65,323 for the years ended December 31, 2018 and 2017, respectively.

Fair Value Measurements

The carrying amounts of cash, restricted cash, prepaid expenses, accounts payable, accrued liabilities, deferred revenue, and other liabilities approximate their fair value due to the short-term nature of these instruments. Cash equivalents, consisting of U.S. Treasury Bills, are adjusted to fair value at each balance sheet date based on quoted prices which are considered level 1 inputs.

ASC 820 “Fair Value Measurements and Disclosures” provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3 Significant unobservable inputs that cannot be corroborated by market data.

Note 1. Summary of Significant Accounting Policies (continued)

Fair Value Measurements, continued

The fair value of the Company's financial instruments are as follows:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Quoted Prices for Similar Assets or Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Treasury Bills as of December 31, 2018	$ 2,508,221	$ -	$ -	$ 2,508,221
U.S. Treasury Bills as of December 31, 2017	$ 4,488,345	$ -	$ -	$ 4,488,345

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statements. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Subsequent Events Evaluation

The Company has evaluated subsequent events through July 23, 2019, which is the date these financial statements were available to be issued.

Note 2. Prior Period Financial Statement Correction of a Misstatement

During 2018, the Company identified certain adjustments required to correct balances within some of the Company's investments, Security Land and 1500 Woodlawn, related to depreciation taken in prior periods. The errors discovered resulted in adjustments to the Company's Balance Sheet, Income Statement, Statement of Stockholders' Equity, and Statement of Cash Flows.

The effect of these restatements on the Company's consolidated balance sheet as of December 31, 2017 is as follows:

	As previously reported at December 31, 2017	Adjustment	As restated at December 31, 2017
Investment in partnerships/LLC	$ 39,723,401	$ 15,680,948	$ 55,404,349
Retained earnings	$ 40,113,418	$ 15,680,948	$ 55,794,366

Note 2. Prior Period Financial Statement Correction of a Misstatement (continued)

The effect of these restatements on the Company's consolidated income statement as of December 31, 2017 is as follows:

	As previously reported at December 31, 2017	Adjustment	As restated at December 31, 2017
Income from equity investment in partnerships/LLC	$ 6,128,915	$ 1,203,046	$ 7,331,961

The effect of these restatements on the Company's consolidated statements of stockholders' equity for the year ended December 31, 2017 is as follows:

	As previously reported at December 31, 2017	Adjustment	As restated at December 31, 2017
Balance at January 1, 2017	$ 51,952,283	$ 14,477,902	$ 66,430,185
Net income	$ 3,440,607	$ 1,203,046	$ 4,643,653
Balance at December 31, 2017	$ 54,217,032	$ 15,680,948	$ 69,897,980

The effect of these restatements on the Company's consolidated statement of cash flows for the year ended December 31, 2017 is as follows:

	As previously reported at December 31, 2017	Adjustment	As restated at December 31, 2017
Net income	$ 3,440,607	$ 1,203,046	$ 4,643,653
Income from equity investment in partnerships/LLC	$ (6,128,915)	$ (1,203,046)	$ (7,331,961)

Note 3. Investment in Security Land and Development Company Limited Partnership

The Company owns a limited partnership interest in Security Land, which owns and operates an office complex. The Company has limited voting rights and is entitled to certain allocations of the profit and loss and operating cash flow distributions of Security Land.

For the year ended December 31, 2018 and 2017, the Company's income from its equity investment in Security Land was $5,874,337 and $5,568,258 (as restated), respectively.

The Company also owns a 5% limited partnership interest in 1500 Woodlawn Limited Partnership, the general partner of Security Land. The Company recognized income of $15,459 and $14,655 (as restated) for the year ended December 31, 2018 and 2017, respectively, from this investment.

Note 3. Investment in Security Land and Development Company Limited Partnership (continued)

On December 17, 2018, Security Land signed a new ten-year lease with the United States General Services Administration, which became effective as of November 1, 2018 and expires on October 31, 2028. The initial annual rent will be approximately $11,750,000 per annum. Based on the new lease, Security Land arranged for new debt totaling approximately $30,000,000. The new debt will be used to pay off existing debt and provide for capital improvements of the facility. In connection with the new lease and debt, on December 19, 2018, Security Land paid to the Company a distribution of $1,214,963.

Summarized Balance Sheet information for Security Land is as follows:

	December 31, 2018	December 31, 2017 *(restated)*
Balance Sheet Data		
Cash and cash equivalents	$ 1,524,900	$ 85,245
Restricted cash	18,558,401	3,245,360
Real estate, net	20,117,732	21,328,871
Deferred charges, net	459,513	349,333
Receivables and other assets	988,703	1,151,095
Leasing cost, net of accumulated amortization	1,270,304	269,755
Total Assets	$ 42,919,553	$ 26,429,659
Accounts payable and accrued expenses	$ 306,197	$ 361,558
Project note payable	28,852,403	17,040,169
Accrued interest payable	52,556	135,790
Total Liabilities	$ 29,211,156	$ 17,537,517
Partners' capital:		
Total Partners' Capital	13,708,397	8,892,142
Total Liabilities and Partner's Capital	$ 42,919,553	$ 26,429,659

Summarized Statements of Income information for Security Land is as follows:

	For the Year Ended December 31, 2018	2017 *(restated)*
Revenues	$ 13,752,481	$ 14,025,130
Expenses	7,568,970	8,163,595
Net income	$ 6,183,511	$ 5,861,535

Note 4. Investment in MESC Capital LLC

The Company owns a 50% membership interest in MESC Capital, which, through its subsidiary, owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama pursuant to an Amended and Restated Tissue Mill and Energy Services and Site Coordination Agreement that expires on or about April 30, 2019.

The Company accounts for the Investment in Partnerships using the equity method, whereby the carrying value of these investments are increased or decreased by the Company's allocable share of book income or loss. The Company recognized income of $3,206,708 and $1,749,047 for the year ended December 31, 2018 and 2017, respectively, from this investment.

On April 24, 2017, Kimberly-Clark notified MESC Capital of its intention to not renew the lease upon its expiration on April 30, 2019. On December 31, 2018, the Company recorded an impairment of its investment in MESC in the amount $2,121,437, which represents the book value of the Company's investment in excess of the remaining payments expected to be received. The impairment charge was included in income from equity investment in partnerships/LLC on the Company's consolidated statement of income.

Summarized Balance Sheet information for MESC Capital LLC is as follows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 5,195,423	$ 2,050,457
Restricted cash	1,000,000	8,097,742
Trade receivable	3,099,392	1,782,114
Current portion of net investment in direct financing lease	239,753	2,893,980
Inventory	-	138,850
Prepaid expenses and other current assets	127,760	143,841
Total current assets	9,662,328	15,106,984
General plant, net	4,516	8,386
Investment in direct financing lease, net of current portion	-	239,753
Other assets- Inventory, net of current portion	-	1,236,509
Total assets	$ 9,666,844	$ 16,591,632
Accounts payable	$ 101,961	$ 243,418
Accounts payable to related parties	466,222	510,050
Accrued liabilities	1,000,000	56,437
Current portion of long-term debt	55,792	3,434,250
Total current liabilities	1,623,975	4,244,155
Long-term debt, net of current portion	-	2,014,776
Total liabilities	1,623,975	6,258,931
Members' equity	8,042,869	10,332,701
Total liabilities and members' equity	$ 9,666,844	$ 16,591,632

Note 4. Investment in MESC Capital LLC (continued)

Summarized Income Statement information for MESC Capital LLC is as follows:

	For the Years Ended December 31,	
	2018	2017
Revenues	$ 15,677,969	$ 15,767,431
Expenses	9,177,480	12,041,677
Income from operations	6,500,489	3,725,754
Other expense	(87,073)	(227,661)
Net income	$ 6,413,416	$ 3,498,093

Note 5. Stock Based Compensation

2003 Incentive Stock Plan

Effective as of March 17, 2003, the Company's Board of Directors and Stockholders approved and adopted the 2003 Stock Incentive Plan (the "2003 Plan"). The 2003 Plan allows the Administrator (as defined in the 2003 Plan), currently the Compensation Committee, to determine the issuance of incentive stock options, non-qualified stock options and restricted stock to eligible employees and outside directors and consultants of the Company. The Company has reserved 500,000 shares of common stock for issuance under the 2003 Plan. The exercise price of any option granted under the 2003 Plan is determined by the Administrator, and no option or award exercise date can exceed ten years from the grant date. On August 13, 2008, the Company's Board of Directors approved an amendment to the 2003 Plan that increased the total number of authorized shares available from 500,000 to 750,000. All other terms of the Plan remain in full force and effect.

Total stock-based compensation expense recorded within General and Administrative Expenses in the Statements of Income was $22,632 and $38,640 during the year ended December 31, 2018 and 2017, respectively. These amounts recognize the vested portion of the requisite grant terms. Unamortized stock-based compensation for these option awards as of December 31, 2018 was $21,994 and will be amortized over a remaining period of 2.5 years.

As of December 31, 2018, 70,000 shares remain available for issuance under the 2003 Plan.

Note 5. Stock Based Compensation (continued)

The following is a summary of the status of the Company's options for the year ended December 31, 2018:

	Exercise Price Range	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at January 1, 2017	$ 2.60-9.50	190,000	$ 5.98	3.93	
Issued		-			
Exercised	$ 5.10	(50,000)	$ 5.10		
Forfeited		-			
Outstanding at December 31, 2017	$ 2.60-9.50	140,000	$ 6.29	4.11	
Exercisable at December 31, 2017	$ 2.60-6.50	112,000	$ 5.49	3.05	
Outstanding at January 1, 2018	$ 2.60-9.50	140,000	$ 6.29	4.11	
Issued		-			
Exercised	$ 4.20	(50,000)	$ 4.20		
Forfeited	$ 2.60	(5,000)	$ 2.60		
Outstanding at December 31, 2018	$ 6.50-9.50	85,000	$ 7.74	5.35	$ 41,000
Exercisable at December 31, 2018	$ 6.50-9.50	64,000	$ 7.16	4.69	$ 41,000

Note 6. Income Taxes

As referred to in Note 1, the Company accounts for income taxes under FASB ASC 740-10, "Income Taxes". The deferred taxes are the result of temporary differences between financial reporting and tax reporting for depreciation, earnings from the Company's partnership investment in Security Land and the recognition of income tax carry-forward items.

The Company files consolidated income tax returns with its wholly owned subsidiaries. As of December 31, 2013, for regular federal and state income tax purposes, the Company has utilized all of its net operating loss carryforwards (NOLs). The Company believes it is no longer subject to income tax examinations for years prior to 2014 by the respective taxing authorities.

The Company and the general partner of Security Land are in disagreement as to the manner in which taxable income of Security Land is to be allocated pursuant to the partnership agreement and applicable law, and for years 2004 through 2017, the Company has reported taxable income and loss from Security Land in a manner it believes is proper, but which was different than the manner reported by Security Land. An investigation or other action by the applicable tax authorities to resolve this difference could have an adverse impact on the Company's operations and financial results.

The Company's 2014 and 2015 tax returns are under examination by the Internal Revenue Service ("IRS").

Note 6. Income Taxes (continued)

To safeguard itself from any possible negative impact, in February 2016, the Company purchased an insurance policy and binder to insure against the negative tax consequences should any arise from the disagreement with Security Land regarding reported taxable income allocations (See Notes 2 and 7). The Company paid $633,900 for the policy and binder which provide coverage of up to $10 million over the next seven years in the event the IRS or a state taxing authority were to investigate and reject the Company's tax positions taken. The policy is subject to certain limitations, exclusions and retentions.

For the years ended December 31, 2018 and 2017, the Company has recorded tax expense of $4,244,989 and $813,203, respectively, including expense (benefit) of $488,904 and $(196,730), respectively, for state income taxes. The Company's applicable statutory tax rates are 21% and 7.5% for federal and state tax purposes, respectively, for the year ended December 31, 2018. The reconciliation of the Company's income tax expense for the year ended December 31, 2018 and 2017 is as follows:

	For the Years Ended December 31,	
	2018	2017
Income tax at federal statutory rate	$ 1,609,524	$ 1,446,296
State taxes, net of federal benefit	488,904	(196,730)
Permanent differences	(655,500)	(439,363)
Change in prior year tax estimate	2,020,046	-
Other	782,015	-
Total income tax expense	$ 4,244,989	$ 813,203

Note 7. Related Party Transactions

In May 2016, the Company entered into a consulting agreement with a non-independent member of its Board of Directors, to provide consulting, financial analyses, and due diligence services for any new potential investment available to the Company, and ongoing financial monitoring of existing investments. Terms of the agreement include an initial fee of $7,500 and a fee of $7,200 each month thereafter. In addition, the agreement called for a 25,000 non-qualified common stock option award, exercisable at $9.50 per share with a term of 10 years and vesting of 5,000 options per year over a 5-year period. The Company may terminate the agreement at any time for cause; the consultant may terminate the agreement at will. The fair value of the options granted was $83,400. During the year ended December 31, 2018 and 2017, the Company recorded stock-based compensation expense of $16,166 and $27,601, respectively, related to this stock option. In addition, under the terms of the agreement, the Company paid $86,400 and $86,400 to the consultant during the year ended December 31, 2018 and 2017, respectively.

Pursuant to a property management agreement entered into with SSCP Property Management, LLC, an affiliate of SSCP, SSCP must pay 5% of the monthly gross receipts as a management fee to an entity wholly-owned by the noncontrolling equity interest. On July 31, 2017 this property management agreement was terminated and the Company entered into an agreement with an unrelated third party to provide these services. The expense incurred was $0 and $104,000 during the year ended December 31, 2018 and 2017, respectively. No amounts were owed to this party as of December 31, 2018 or December 31, 2017.

Note 8. Contingencies, Risks, and Uncertainties

The Company is subject to numerous contingencies, risks and uncertainties including, but not limited to, the following that could have a severe impact on the Company:

A default in the Lease or sudden catastrophe to the Security West Building from uninsured acts of God or war could have a materially adverse impact upon the Company's investment in Security Land and Development Company Limited Partnership and, therefore, its financial position and results of operations (See Note 2).

Royalty, an affiliate of the Company's management, beneficially owns approximately 60% of the Company's common stock. As a result, Royalty has the ability to control the outcome of all matters requiring shareholder approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of the Company's assets.

There are many public and private companies that are also searching for operating businesses and other business opportunities as potential acquisition or merger candidates. The Company will be in direct competition with these other companies in its search for business opportunities. Many of these entities have significantly greater financial and personnel resources than the Company.

The Company and the general partner of Security Land are in disagreement as to the manner in which taxable income of Security Land is to be allocated pursuant to the partnership agreement and applicable law, and for years 2004 through 2017, the Company reported taxable income (loss) from Security Land in a manner the Company believes is proper, but which was different than the manner reported by Security Land (See Note 5). This may result in an investigation or other action by the applicable tax authorities and any action taken by tax authorities to resolve this difference could have an adverse impact on the Company’s operations and financial results. In February 2016, the Company obtained an insurance policy to protect against such losses, however, it may not be sufficient under all circumstances to cover all potential losses to the Company in the event of any such adverse determinations.

In September 2016, the Company received an Internal Revenue Service letter indicating its 2014 Federal Form 1120 was selected for examination. In September 2017, the Company received an Internal Revenue Service letter indicating its 2015 Federal Form 1120 was selected for examination. Management has submitted the initial documentation requested.

Note 9. Lease Commitments

In January 2016, Regency paid a $201,329 security deposit and entered into a new, seven-year office lease agreement, for a 4,081 square foot space for its New York City location. Base rental payments under this agreement are $74 per square foot per year, with a 1.75% fixed annual escalation. In addition, the Company is responsible to pay the tenant's share of real estate tax increases above the 2016/2017 base year and electricity usage. A rent concession has been granted to waive the first three months' rent. On the third anniversary of rent commencement, and provided the Company is not in default of any rental obligations, the landlord agrees to reduce the security deposit to six months' base rent, or approximately $151,000. The lease also contains an early termination clause which is effective after five years, with proper notice and payment of an early termination fee. The office relocated in May 2016, the first month of the lease term. Rent expense for the year ended December 31, 2018 and 2017 was $310,862 and $307,312, respectively.

As of December 31, 2018, future minimum payments under this operating lease are as follows:

For the Years Ended December 31,		
2019	$	316,304
2020		321,839
2021		327,471
2022		333,202
2023		111,709
Total	$	1,410,525

Note 10. License Agreement

In May 2016, a new License Agreement commenced with an unrelated entity which provides the use of leased space within the Company's New York City office, for $8,833 per month, plus monthly office service fees, through June 2018. Annual one-year renewal periods are available, with license and service fee increases of 2.25% and 2.5%, respectively, until the expiration of the office lease.

License fee income and related service fees for the year ended December 31, 2018 and 2017 was $109,600 and $106,989, respectively.

Note 11. Simplified Employee Pension- Individual Retirement Account (SEP-IRA)

The Company adopted a SEP-IRA Plan in 2004. During the year ended December 31, 2018 and 2017, the Company expensed contributions of $117,080 and $117,325, respectively, to the SEP-IRA Plan. The SEP-IRA Plan covers all employees who receive compensation from the Company during the year. Employer contributions are discretionary and determined annually. In addition, the SEP-IRA Plan allows participants to make elective deferral contributions through payroll deductions.

Note 12. Dividends

The Board of Directors has a dividend policy whereby the Board expects to declare a total annual dividend to common shareholders of $0.25 per share, to be paid in equal, quarterly installments of $0.0625 per share, provided that the determination to pay any cash dividends for any quarterly period will be made at the applicable time by the Board, in the Board's sole discretion, in compliance with the requirements of applicable law, and with consideration of the Company's future earnings and financial condition and other factors as may be deemed appropriate for consideration by the Board. The dividend policy will remain in effect until the Board determines, in its sole discretion, that it is in the best interests of the Company and its common shareholders to terminate the dividend policy.

In September 2018, the Board of Directors increased its annual dividend policy to $0.256 per share of issued and outstanding common stock to be paid in equal quarterly installments of $0.064 per share.

In December 2018, the Company received cash of $96,110 as a return of dividends for which the recipients could not be located by the Company's transfer agent. The Company included this amount in accrued dividends on the Company's consolidated balance sheet and is attempting to locate the parties for whom the dividends were to be paid.

Note 13. Mortgage Note Payable

On April 18, 2016, SSCP, through its five self-storage properties, obtained a $25,250,000 bank note to fund the acquisition. The note is a non-recourse debt financing with a ten year term, 4.95% fixed interest rate, and has a maturity date of May 6, 2026. The note is guaranteed by the owners of SSCP and is secured by all assets of SSCP. The only amount due during the first four years of the note is interest. The Company paid $126,250 in fees for underwriting of the note. These were recorded as a debt discount and are amortized over the life of the note. Amortization expense of debt discount was $12,624 and $12,624 for the years ended December 31, 2018 and 2017, respectively.

Under the terms of this agreement, the Company is required to meet and maintain certain financial covenants. The covenant at December 31, 2018 is:

Minimum Debt Service Coverage Ratio	1.45 to 1.00
Actual Debt Service Coverage Ratio	1.71 to 1.00

As of December 31, 2018, future minimum principal payments due under the note are as follows:

For the Years Ended December 31:	Amount
2019	-
2020	248,531
2021	388,486
2022	408,158
Thereafter	24,204,825
Total	$ 25,250,000

Note 14. Subsequent Events

Subsequent to December 31, 2018, through the date of this report, the Company received $3,150,000 in distributions from its investment in MESC.

In March 2019, the Board of Directors declared a quarterly cash dividend of $0.0640 per share of issued and outstanding common stock to holders of record as of the close of trading on March 29, 2019, totaling $308,164, payable on April 7, 2019.

In June 2019, the Board of Directors declared a quarterly cash dividend of $0.0640 per share of issued and outstanding common stock to holders of record as of the close of trading on June 28, 2019, totaling $308,164, payable on July 8, 2019.