Holly Mortgage Trust

2019 Annual Report

TO OUR SHAREHOLDERS:

The financial statements of Holly Mortgage Trust ("Holly"), audited by Melton & Melton, L.L.P. for the years ended December 31, 2019 and December 31, 2018, are included at the end of this report. In 2019, revenue decreased 30% to $167,000. Net income was $31,565, which equates to $0.02 per share.

The expenses include the payment of dividends on Holly's two classes of convertible preferred stock. Total dividends paid for 2019 was $70,500 and the total for 2018 was $81,400. All dividends are paid on a current basis. Accounting guidelines require us to report these dividends as interest expense even though they are dividends for federal income tax purposes.

The strength of the Midland, Texas oil-based economy has benefited Holly through its ownership of the general partner in the partnership that owns the Wilco office building. In 2019, Holly recorded income of $147,000 from this investment and $237,833 in 2018. The Wilco building is a 22 story office building, with 197,207 rentable square feet and an attached 10 story parking garage.

INVESTMENTS

During 2018, Holly exchanged its $750,000 equity stake (33.7% of total) in North Hills Village, a 152-unit apartment complex in El Paso, Texas for a $750,000 equity stake (27.48% of total) in Casitas Investors, LLC which owns the Casitas del Este Apartments, a 78 unit complex, in El Paso, Texas. Also included in the exchange was a contingent assignment of excess cash flow of up to an additional $750,000 and a promissory note of $72,000 for which Holly receives monthly installments.

Holly owns a 25.96% interest in Global REIT, LP. Global REIT, LP is an entity set up to acquire interests in real estate throughout the world through investments in regional real estate entities. Global REIT's portfolio includes assets in the U.S., New Zealand and Ghana.

WEBSITE

Holly's website, www.hollymortgage.com contains additional information about the trust. Earlier shareholder reports are posted on the website.

Shareholders can also contact the transfer agent below to change their mailing address, change share registration, obtain copies of IRS Form 1099, and arrange direct deposit of preferred stock dividends to their bank account:

Equiniti Trust Company
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4100

Phone: 800-468-9716 Fax: 651-450-4033

The 2020 shareholder meeting is scheduled for Tuesday, May 19, 2020 at the offices of its manager, FCA Corp, 791 Town & Country Blvd., Suite 250, Houston, Texas. Please vote your proxy.

Robert W. Scharar
President

Robert A. Burns
Treasurer

March 25, 2020

HOLLY MORTGAGE TRUST

FINANCIAL STATEMENTS

FOR THE

YEARS ENDED DECEMBER 31, 2019 AND 2018

AND

INDEPENDENT AUDITOR'S REPORT

MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

HOLLY MORTGAGE TRUST

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MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trust Managers of
Holly Mortgage Trust

We have audited the accompanying financial statements of Holly Mortgage Trust (the "Trust"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in shareholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Basis for Qualified Opinion

As discussed in Note 2 to the financial statements, the Trust reports its investment in A. R. Goldrick Company, Inc., a wholly owned subsidiary, on the cost minus impairment method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that a majority-owned subsidiary be accounted for as a consolidated subsidiary. The effects of this departure from accounting principles generally accepted in the United States of America cannot be reasonably estimated.

6002 Rogerdale, Ste. 200 Houston, Texas 77072 Tel 281-759-1120 Fax 281-759-5500

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Holly Mortgage Trust as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Houston, Texas
February 21, 2020

HOLLY MORTGAGE TRUST
BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 42,729	$ 46,133
Investments	928,800	928,800
Note receivable	38,000	62,000
	$ 1,009,529	**$ 1,036,933**
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and accrued expenses	$ 50,557	$ 67,200
Accounts payable - related parties	-	13,150
Notes payable	373,716	402,892
Preferential cumulative mandatorily redeemable shares of beneficial interest	1,350,000	1,350,000
	1,774,273	1,833,242
Shareholders' Deficit:		
Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,604,232 shares issued and outstanding	1,536,119	1,536,119
Accumulated deficit	(2,300,863)	(2,332,428)
	(764,744)	(796,309)
	$ 1,009,529	**$ 1,036,933**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2019 and 2018

	2019	2018
Revenue:		
Other income	$ 167,000	$ 237,833
Costs and Expenses:		
Professional fees	47,192	41,002
Interest expense	88,158	100,568
General and administrative	85	4,690
	135,435	146,260
Net income	**$ 31,565**	**$ 91,573**
Weighted average shares outstanding	**1,604,232**	**1,604,232**
Net income per share, basic and diluted	**$ 0.02**	**$ 0.06**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the Years Ended December 31, 2019 and 2018

	Shares of Beneficial Interest		Accumulated	Shareholders'
	Number	**Amount**	**Deficit**	**Deficit**
Balance, December 31, 2017	1,604,232	$ 1,536,119	$ (2,424,001)	$ (887,882)
Net income	-	-	91,573	91,573
Balance, December 31, 2018	1,604,232	1,536,119	(2,332,428)	(796,309)
Net income	-	-	31,565	31,565
Balance, December 31, 2019	**1,604,232**	**$ 1,536,119**	**$ (2,300,863)**	**$ (764,744)**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Net income	$ 31,565	$ 91,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	(29,793)	(4,504)
Net cash provided by operating activities	1,772	87,069
Cash Flows from Investing Activities:		
Principal collected on note receivable	24,000	10,000
Net cash provided by investing activities	24,000	10,000
Cash Flows from Financing Activities:		
Payments on notes payable	(29,176)	(69,778)
Net cash used in financing activities	(29,176)	(69,778)
Net increase (decrease) in cash and cash equivalents	(3,404)	27,291
Cash and Cash Equivalents, beginning of year	46,133	18,842
Cash and Cash Equivalents, end of year	**$ 42,729**	**$ 46,133**
Supplemental Information:		
Cash paid for interest	**$ 85,158**	**$ 97,987**
Noncash Investing and Financing Activities:		
Note origination from sale of investment	**$ -**	**$ 72,000**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Holly Mortgage Trust (the "Trust") is organized as a Texas real estate investment trust. The Trust has a termination date of December 31, 2030. The Trust is engaged primarily in the business of investing in second mortgages, equity participation mortgages, and multi-family residential properties.

Cash and Cash Equivalents

The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Trust maintains cash balances in a bank, which at times exceed federally insured limits. The Trust monitors the financial condition of the bank and has experienced no losses associated with the account.

Accrued Interest Receivable and Allowance for Losses

Accrued interest receivable from a mortgage note receivable is carried at its unpaid balance less an allowance for losses. At December 31, 2019 and 2018, there are no outstanding mortgage notes receivable. An allowance for losses is based on management's estimate of potentially uncollectible accounts after consideration of existing economic conditions, borrowers' performance in reducing the outstanding balance, and other relevant factors. Receivables are charged off against the allowance for losses when management determines the balance is uncollectible. Subsequent interest collected is recognized as revenue. At December 31, 2019 and 2018, the allowance for losses on accrued interest receivable was $141,000 and $276,000, respectively.

The change in the accrued interest receivable allowance for losses during the years ended December 31, 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	$ 276,000	$ 501,833
Recovery of amounts previously charged off	(135,000)	(225,833)
Balance, end of year	$ 141,000	$ 276,000

Net Income Per Share

Net income per share is calculated by dividing net income by the weighted average number of shares of beneficial interest outstanding during the year. The Trust has no items that give rise to antidilutive shares. Accordingly, basic and dilutive shares presented are the same.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Estimates

The preparation of 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 reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Recent Accounting Pronouncement

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 was issued with the intent to address certain aspects of recognition, measurement, presentation, and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value with changes in fair value recognized in net income (loss). Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial instruments for disclosure purposes is measured using exit price.

The Trust adopted the ASU as of January 1, 2019, prospectively. The adoption of the ASU did not affect the Trust's balance sheet or beginning accumulated deficit.

NOTE 2 - INVESTMENTS

Investments that do not have a readily determinable fair value are measured and recorded using a measurement alternative that measures the investments at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Prior to 2019, the investments were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment.

Investments consist of the following at December 31, 2019 and 2018:

	2019	2018
A.R. Goldrick Company, Inc.	$ -	$ -
Global REIT, L.P.	250,800	250,800
Casitas Investors, LLC	678,000	678,000
	$928,800	$928,800

NOTE 2 - INVESTMENTS (CONTINUED)

The Trust owns 100% of the common stock of A. R. Goldrick Company, Inc. (a C corporation) ("A. R. Goldrick"). A. R. Goldrick is the general partner of Wilco Building Partners, Ltd., a limited partnership that owns and operates an office building in Midland, Texas. The financial statements of A. R. Goldrick have not been consolidated with those of the Trust. The investment in A. R. Goldrick was written off in full as permanently impaired in prior years. In each year of 2019 and 2018, the Trust received $12,000 from A. R. Goldrick as a return on the investment, and $135,000 and $225,833, respectively, from Wilco Building Partners, Ltd. The amounts are recorded each year as other income in the statements of operations.

Beginning January 1, 2019 the carrying value of the investments are adjusted for any qualifying observable price changes. The Trust did not identify any qualifying observable price changes in the investments in 2019 and there were no upward or downward adjustments to the carrying value of the investments. The investments are also subject to impairment reviews when indicators of impairment exist. The Trust did not identify any indicators of impairment for the investments in 2019.

At December 31, 2019 and 2018, the Trust owns 836 partnership units of Global REIT, L.P. ("Global"). At December 31, 2019 and 2018, the Trust owns a 27.48% interest in Casitas Investors, LLC ("Casitas"); and contingent future sale proceeds from Casitas Apartments. The Trust has no control or influence on management of Global or Casitas.

At December 31, 2018, investments of $928,800 were not evaluated for impairment because (a) the Trust did not estimate the fair value of those investments in accordance with the FASB Accounting Standards Codification (ASC) 825, *Financial Instruments*, and (b) the Trust did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments.

NOTE 3 - NOTE RECEIVABLE

The Trust has a $72,000 unsecured, non-interest bearing note receivable with an unrelated third-party. Principal is payable in monthly installments of $2,000 with a final payment due in August 2021. At December 31, 2019 and 2018, the note receivable balance was $38,000 and $62,000, respectively.

NOTE 4 - NOTES PAYABLE

Notes payable consist of the following as of December 31, 2019 and 2018:

	2019	2018
Unsecured 6% note, payable to a living trust in January 2021, interest payable quarterly.	$ 50,000	$ 50,000
Unsecured 4% note, payable to a former shareholder of preferential shares of beneficial interest, payable in quarterly installments of $4,424, including principal and interest, with the final payment due in March 2020.	8,716	37,892

NOTE 4 - NOTES PAYABLE (CONTINUED)

	2019	2018
Note, payable to a financial institution, interest payable monthly at 4% through October 2018 and 4.4% thereafter, principal due at maturity in October 2020, secured by a certificate of deposit held by First Commonwealth Mortgage Trust ("FCMT"), and guaranteed by FCMT. FCMT is related to the Trust through common management.	315,000	315,000
	$373,716	$402,892

Future maturities of notes payable at December 31, 2019 are as follows:

For the Year Ending December 31:	
2020	$323,716
2021	50,000
	$373,716

The Trust incurred loan guarantee fees of $3,150 in 2018, which are included in general and administrative expenses in the statements of operations. There were no loan guarantee fees incurred for 2019.

NOTE 5 - FEDERAL INCOME TAXES

The Trust operates in such a manner to qualify as a "real estate investment trust" under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder. Under those sections, the Trust will not be taxed on that portion of its qualifying income distributed to shareholders so long as at least 90% of the Trust's otherwise taxable income is distributed to shareholders each year and other requirements of a qualified real estate investment trust are met. The Trust satisfied the income distribution requirements for the years ending December 31, 2019 and 2018. Management believes that all other requirements of a qualified real estate investment trust have been met.

The tax status of per-share dividend distributions declared attributable to the years presented is as follows:

	2019	2018
Ordinary income	100%	100%
Return of capital	0	0
	100%	100%

NOTE 5 - FEDERAL INCOME TAXES (CONTINUED)

As of December 31, 2019, the Trust had a federal net operating loss carryforward of approximately $3.0 million that can be deducted against future taxable income. The carryforward amount expires in 2029-2037. The Trust does not expect to pay federal income taxes, thus the tax effect of the net operating loss carryforward has been adjusted to zero by a valuation allowance of $644,076 and $586,248 at December 31, 2019 and 2018, respectively. The valuation allowance increased by $57,828 and $18,967 in 2019 and 2018, respectively.

Management has evaluated the Trust's tax positions and concluded that the Trust has taken no uncertain income tax positions that require adjustment to the financial statements. Tax-related interest and penalties are recorded in income tax expense in the statements of operations. The Trust incurred no tax-related interest or penalties in 2019 or 2018. The Trust is subject to income tax examinations by federal and state tax authorities for years beginning in 2016 and after.

NOTE 6 - PREFERENTIAL SHARES OF BENEFICIAL INTEREST

Except for the rights and preferences in payment of dividends and in liquidations, the Preferential Shares of Beneficial Interest ("Preferential Shares") have the same voting and other rights as the Shares of Beneficial Interest ("Common Shares"). The Preferential Shares issued in 2004 are entitled to receive cumulative preferential dividends at the annual rate of five cents ($0.05) per share before any dividends are paid on the Common Shares. The Preferential Shares issued in 2009 and 2008 are entitled to receive cumulative preferential dividends at the annual rate of four cents ($0.04) or eight cents ($0.08) per share, depending on the amount selected by the shareholder beginning on a quarterly basis in July 2018, for 2019 and 2018, before any dividends are paid on the Common Shares.

In the event of liquidation of the Trust, the assets available for distribution will be distributed first to the holders of the Preferential Shares up to one dollar ($1) per share plus any deferred dividends, then second to the holders of Common Shares up to one dollar ($1) per share and then equally on all of the shares of Preferential and Common Shares.

The 2004 Preferential Shares (950,000 shares authorized and 530,000 shares issued and outstanding) are subject to redemption at any time after January 1, 2009 upon not less than 30 days' prior written notice, in whole or in part, at the election of the Trust at the redemption price of one dollar ($1) per share plus all unpaid dividends accrued to the redemption date. Any 2004 Preferential Shares issued in 2004 that are outstanding on September 30, 2020 will be redeemed on that date.

The 2008 Preferential Shares (990,000 shares authorized and 820,000 shares issued and outstanding) are subject to redemption at any time after January 1, 2012 upon not less than 30 days' prior written notice, in whole or in part, at the election of the Trust at the redemption price of one dollar ($1) per share plus all unpaid dividends accrued to the redemption date. Any 2008 Preferential Shares issued in 2009 and 2008 that are outstanding on September 30, 2023 will be redeemed on that date.

NOTE 6 - PREFERENTIAL SHARES OF BENEFICIAL INTEREST (CONTINUED)

ASC 480, *Distinguishing Liabilities from Equity*, establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. ASC 480 requires an issuer to classify a financial instrument issued in the form of shares that is mandatorily redeemable and embodies an unconditional obligation to redeem it by transferring its assets at a specified or determinable date or upon an event that is certain to occur as liabilities. The Trust has adopted these provisions in its financial statements and has included mandatorily redeemable preferred shares in liabilities in the balance sheets and dividends of $70,500 and $81,400 for 2019 and 2018, respectively, on the mandatorily redeemable preferred shares as interest expense in the statements of operations.

NOTE 7 - MANAGEMENT AGREEMENT AND RELATED-PARTY TRANSACTIONS

FCA Corp (“FCA”) is the Trust’s compensated manager and is related to the Trust through common management. Annual management fees are equal to the greater of $50,000 or 1.4% of beginning of year Trust assets. FCA waived the management fees in 2019 and 2018 and has consented to waive its management fees through May 2020.

At December 31, 2018, accounts payable - related parties consist of $10,000 and $3,150 payable to FCA and FCMT, respectively. At December 31, 2019, there were no outstanding accounts payable – related parties.

NOTE 8 - FINANCIAL CONDITION

The Trust incurred annual net losses from 2009 through 2015 and again in 2017, which has resulted in a shareholders’ deficit since December 31, 2011. The Trust had net income in 2016 and 2018 through 2019. In the prior years, the Trust had problems in collecting mortgage notes receivable and accrued interest and experienced a decline in value of its investments. In response, the Trust is discussing a sale of the Wilco Building that could generate a gain to A.R. Goldrick. Collection of accrued interest from A.R. Goldrick totaling approximately $1,000,000 for the Trust began in 2015. Payments of $10,000 per month are being received. Total amounts collected, including returns on investment in A.R. Goldrick, were $147,000 and $237,833 in 2019 and 2018, respectively. As a result, management believes the Trust will have sufficient resources and cash to continue as a going concern entity.

NOTE 9 - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through February 21, 2020, the date the financial statements were available to be issued.

HOLLY MORTGAGE TRUST

BOARD OF TRUST MANAGERS

George Beatty, Jr.
Retired Environmental Consultant

Mr. Beatty also serves as a trust manager of First Commonwealth Mortgage Trust and is a manager of Africap, LLC.

Ben Wacksman
Real Estate Consultant

Mr. Wacksman serves as a trust manager and has numerous years of experience as a real estate entrepreneur.

Josef C. Hermans
Hotel Consultant
President, Terrace Hotel Corporation

Mr. Hermans also serves as a trust manager and or a director of First Commonwealth Mortgage Trust and Terrace Hotel Corp.

Robert W. Scharar
President, Holly Mortgage Trust

Mr. Scharar also serves as a trust manager of First Commonwealth Mortgage Trust and holds positions with other entities, including but not limited to, Commonwealth International Series Trust, Africap, LLC, and FCA Corp.

EXECUTIVE OFFICERS

Robert W. Scharar
President

Robert A. Burns
Treasurer

Clint Dennis, Esq.
Secretary

Robert W. Scharar and Robert A. Burns are employees of FCA Corp
and serve as officers of other entities.

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