HOLLY MORTGAGE TRUST

2017 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, 2017 and December 31, 2016, are included at the end of this report. In 2017, revenue decreased 31% to $178,319. Net loss was $(23,147), which equates to $(0.01) per share.

The expenses include the payment of dividends on Holly's two classes of convertible preferred stock. Total dividends paid for 2017 is $94,100 and the total for 2016 is $96,100. 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 2017, Holly recorded income of $178,319 from this investment and $257,938 in 2016. The Wilco building is a 22 story office building, with 197,207 rentable square feet and an attached 10 story parking garage.

INVESTMENTS

Holly owns a $750,000 equity stake (33.7% of total) in North Hills Village, a 152-unit apartment complex in El Paso, Texas near the U.S. Army base of Fort Bliss. Occupancy at December 31, 2017 was 73.68% with 112 units occupied. Cash distributions to the partners have not commenced. The limited partners are entitled to an 8% preferential return on their invested capital.

Holly owns a 25.96% interest in Global REIT, LP. Additional capital of $116,200 was invested in Global REIT, LP during 2016. 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., Australia, New Zealand, Ghana and Mexico.

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 2018 shareholder meeting is scheduled for May 8, 2018. Please vote your proxy.

Robert W. Scharar
President

Robert A. Burns
Treasurer

March 31, 2018

HOLLY MORTGAGE TRUST

FINANCIAL STATEMENTS

FOR THE

YEARS ENDED DECEMBER 31, 2017 AND 2016

AND

INDEPENDENT AUDITOR'S REPORT

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, 2017 and 2016, 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 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, 2017 and 2016, 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 28, 2018

HOLLY MORTGAGE TRUST
BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 18,842	$ 36,400
Investments	1,000,800	1,037,002
	$ 1,019,642	**$ 1,073,402**
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and accrued expenses	$ 80,104	$ 66,123
Accounts payable - affiliates	4,750	10,000
Notes payable	472,670	462,014
Preferential cumulative mandatorily redeemable shares of beneficial interest	1,350,000	1,400,000
	1,907,524	1,938,137
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	(2,424,001)	(2,400,854)
	(887,882)	(864,735)
	$ 1,019,642	**$ 1,073,402**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Revenue:		
Other income	$ 178,319	$ 257,938
	178,319	257,938
Costs and Expenses:		
Management fees to affiliate	-	20,000
Impairment loss on investment	36,202	-
Professional fees	42,105	39,014
Interest expense	115,373	112,627
General and administrative	7,786	10,253
	201,466	181,894
Net income (loss)	**$ (23,147)**	**$ 76,044**
Weighted average shares outstanding	**1,604,232**	**1,604,232**
Net income (loss) per share, basic and diluted	**$ (0.01)**	**$ 0.05**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the Years Ended December 31, 2017 and 2016

	Shares of Beneficial Interest		Accumulated	Shareholders'
	Number	**Amount**	**Deficit**	**Deficit**
Balance, December 31, 2015	1,604,232	$ 1,536,119	$ (2,476,898)	$ (940,779)
Net income	-	-	76,044	76,044
Balance, December 31, 2016	1,604,232	1,536,119	(2,400,854)	(864,735)
Net loss	-	-	(23,147)	(23,147)
Balance, December 31, 2017	**1,604,232**	**$ 1,536,119**	**$ (2,424,001)**	**$ (887,882)**

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Net income (loss)	$ (23,147)	$ 76,044
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Impairment loss on investment	36,202	-
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	13,981	6,257
Total adjustments	50,183	6,257
Net cash provided by operating activities	27,036	82,301
Cash Flows from Investing Activities:		
Purchase of investment	-	(116,200)
Net cash used in investing activities	-	(116,200)
Cash Flows from Financing Activities:		
Payments to affiliates	(5,250)	(45,267)
Proceeds from notes payable	-	325,000
Payments on notes payable	(39,344)	(243,834)
Net cash provided by (used in) financing activities	(44,594)	35,899
Net increase (decrease) in cash and cash equivalents	(17,558)	2,000
Cash and Cash Equivalents, beginning of year	36,400	34,400
Cash and Cash Equivalents, end of year	**$ 18,842**	**$ 36,400**
Supplemental Information:		
Cash paid for interest	**$ 114,954**	**$ 112,627**
Noncash Investing and Financing Activities:		
Preferential cumulative mandatorily redeemable shares of beneficial interest purchased with note payable	**$ 50,000**	

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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.

Mortgage Notes Receivable and Allowance for Losses

Mortgage notes receivable are carried at the unpaid principal balance less an allowance for losses. Management intends to hold mortgage notes receivable to maturity. The mortgage notes receivable are principally collateralized by second mortgage loans on commercial or residential property. Mortgage notes receivables were fully collected in 2015.

An allowance for losses is based on management's estimate of the amount required to maintain an allowance adequate to reflect the risks inherent in the mortgage note portfolio after giving consideration to existing economic conditions, loss experience in relation to the outstanding mortgage notes, changes in the mortgage notes portfolio, borrowers' performance in reducing mortgage note principal, adequacy of mortgage notes collateral, and other relevant factors. A mortgage note is charged off against the allowance for losses when management determines the mortgage note is uncollectible. A mortgage note is placed on nonaccrual status when it becomes past due, as determined by management. Upon suspension of the accrual of interest, interest previously recognized but uncollected is reversed and charged against current income. Subsequent interest collected on the mortgage note is credited to principal if, in the opinion of management, collectibility of principal is doubtful; otherwise, the interest collected is recognized as revenue. Accrual of interest is resumed when a mortgage note is removed from nonaccrual status. Interest income is accrued based upon the principal amount outstanding. Commitment and origination fees are deferred and recognized as income using a method approximating the interest method over the life of the loan.

A mortgage note is considered impaired when it is probable that the scheduled principal or interest will not be collected. Impaired mortgage notes include mortgage notes that have been placed on nonaccrual status and are valued based upon the present value of expected future cash flows discounted at the mortgage note's effective interest rate or collateral fair value, if the mortgage note is collateral dependent. If the measure of the impaired mortgage note is less than the recorded investment in the mortgage note, an impairment loss is included in the allowance for losses.

At December 31, 2017 and 2016, the allowance for losses on accrued interest receivable was $501,833 and $658,833, respectively.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The change in the accrued interest receivable allowance for losses during the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of year	$ 658,833	$ 858,833
Recovery of amounts previously charged off	(157,000)	(200,000)
Balance, end of year	$ 501,833	$ 658,833

There were no commitments to lend funds at December 31, 2017 or 2016.

Net Income (Loss) Per Share

Net income (loss) per share is calculated by dividing net income (loss) 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.

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 1iabilities 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 Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of Topic 360, *Property, Plant, and Equipment*, and intangible assets within the scope of Topic 350, *Intangibles—Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. ASU 2014-09, as further amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2014-09 will have on the Trust's financial statements.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 makes the following changes to existing accounting principles generally accepted in the United States of America for entities that are not public business entities:

- Requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.
- Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to determine impairment.
- Eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost.
- Requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (that is, securities or loans and receivables) on the balance sheets or the accompanying notes to the financial statements.
- Clarifies that an entity should evaluate the need for a valuation allowance on a deferred income tax asset related to available-for-sale securities in combination with the entity's other deferred income tax assets.

ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2016-01 will have on the Trust's financial statements.

NOTE 2 - INVESTMENTS

Investments, recorded at cost, consist of the following at December 31, 2017 and 2016:

	2017	2016
A. R. Goldrick Company, Inc.	$ -	$ -
Global REIT, L.P.	250,800	287,002
Northeast Equity Partners, LP	750,000	750,000
	$1,000,800	$1,037,002

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 is accounted for using the cost method of accounting. In 2017 and 2016, the Trust received $178,319 and $257,938 from A. R. Goldrick, respectively, that was recorded as other income in the statements of operations.

At December 31, 2017 and 2016, the Trust owns 836 partnership units of Global REIT, L.P. ("Global") and a 33.7% partnership interest in Northeast Equity Partners, LP ("NEP"). The Trust has no control or influence on management of Global or NEP and accordingly, accounts for the investments using the cost method of accounting. During 2017, management determined the investment in Global was impaired. As a result, a $36,202 impairment loss on investment was recorded in 2017. There was no impairment on the Global investment in 2016.

Except for the investment in Global, investments of $750,000 at December 31, 2017 and 2016 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 - FAIR VALUE MEASUREMENTS

The Trust accounts for fair value in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures,* which clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Various inputs are used in determining the fair value of certain assets and liabilities. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, FASB ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy, including the types of Trust assets that fall under each category and the valuation methodologies used to measure fair value, are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology are other than quoted market prices in active markets that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 - Inputs to the valuation methodology are unobservable inputs (i.e., projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Impaired Investment: The fair value of the impaired investment is based on the Trust's estimate of the fair value of the investment's underlying assets. The underlying assets consist primarily of investments in real estate entities and notes receivable recorded at fair value. The fair value of investments in real estate entities is derived from financial data supplied by the real estate entities and the real estate entities' audited financial statements. In the absence of audited financial statements, investment management determines the fair value by considering earnings, forecasts, and recent transactions in the equity interest of similar entities and other available indications of fair value. Investments in notes receivable are equal to the estimated collectible amount of notes receivable, as determined by investment management.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The inputs and methodology used for valuing the Trust's assets and liabilities are not an indication of the risk associated with those assets.

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value measured on a nonrecurring basis as of December 31, 2017 (there were no fair value measurements at December 31, 2016):

Description	Level 1	Level 2	Level 3	Total
Impaired investment			$250,800	$250,800

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 nonrecurring measurements. The Trust's Board of Managers assesses and approves these policies and procedures. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

NOTE 4 - NOTES PAYABLE

Notes payable consist of the following as of December 31, 2017 and 2016:

	2017	2016
Unsecured note, payable to an individual in January 2019, with interest payable quarterly at 6%.	$ 50,000	$ 50,000
Unsecured 5% notes (3 and 4 at December 31, 2017 and 2016, respectively), payable to former shareholders of preferential shares of beneficial interest, payable in quarterly installments of $28,416, including principal and interest. Remaining principal at December 31, 2016 was due in three equal quarterly installments plus interest with the final payment due on September 30, 2017. The notes have not been renewed and are due on demand at December 31, 2017.	55,773	87,014
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 on March 31, 2020.	41,897	-
$325,000 note, payable to a financial institution, interest only payable monthly beginning on November 27, 2016 at an interest rate of 4% annually, final payment due on October 27, 2018 for unpaid principal and remaining accrued and unpaid interest, secured by a certificate of deposit held as a collateral at First Commonwealth Mortgage Trust (FCMT) and a guaranty by FCMT. FCMT is related to the Trust through common management.	325,000	325,000
	$472,670	$462,014

Future maturities of notes payable at December 31, 2017 are as follows:

For the Year Ending December 31:	
2018	$401,201
2019	67,090
2020	4,379
	$472,670

Interest expense on related trust notes amounted to $2,625 for 2016. There was no interest expense on related trust notes in 2017. The Trust incurred loan guarantee fees with FCMT of $3,250 in both 2017 and 2016.

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, 2017 and 2016. 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:

	2017	2016
Ordinary income	100%	0%
Return of capital	0	100
	100%	100%

As of December 31, 2017, the Trust had a federal net operating loss carryforward of approximately $2.7 million that can be deducted against future taxable income. The carryforward amount expires in 2023 - 2035. 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 $567,281 and $942,906 at December 31, 2017 and 2016, respectively. The valuation allowance increased (decreased) by $(375,625) and $33,316 in 2017 and 2016, respectively. Included in the decrease of the valuation allowance in 2017 is the effect of change in effective tax rates of $351,174.

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 2017 or 2016. The Trust is subject to income tax examinations by federal and state tax authorities for years beginning in 2014 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 eight cents ($0.08) (reduced to $0.04 beginning in 2018) per share before any dividends are paid on the Common Shares.

NOTE 6 - PREFERENTIAL SHARES OF BENEFICIAL INTEREST (CONTINUED)

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 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 and 870,000 shares issued and outstanding at December 31, 2017 and 2016, respectively) 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. In 2017, 50,000 shares were redeemed. Any Preferential Shares issued in 2009 and 2008 that are outstanding on September 30, 2023 will be redeemed on that date.

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 $94,100 and $96,100 for 2017 and 2016, 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. FCA is related to the Trust through common management. Management fees to FCA were $20,000 for the year ended December 31, 2016. Effective January 1, 2015 through May 2018, the management fee was reduced to $40,000. FCA consented to waive its management fees starting on July 1, 2016 and through December 31, 2017.

At December 31, 2017 and 2016, accounts payable - affiliates consist of the following:

	2017	2016
FCA	$1,500	$10,000
FCMT	3,250	-
	$4,750	$10,000

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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. Further, the Trust has not been actively seeking new investment opportunities due to cash flow problems. The Trust had problems in collecting outstanding 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 $178,319 and $257,938 in 2017 and 2016, respectively. Also, the Trust is anticipating the receipt of preferred return payments from one of its investments. That investment is being marketed for sale. 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 28, 2018, 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.

William C. Brooks
Financial Consultant

Mr. Brooks also serves as a trust manager of First Commonwealth Mortgage Trust and Ivy Realty Trust.

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, Ivy Realty 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 Ivy Realty 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

William B. LeVa
Secretary

All officers are employees of FCA Corp
and serve as officers of other entities.

TRANSFER AGENT
Equiniti Trust Company
1110 Centre Pointe Curve, Suite 101, Mendota Heights, MN 55120-4100
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Website: www.hollymortgage.com